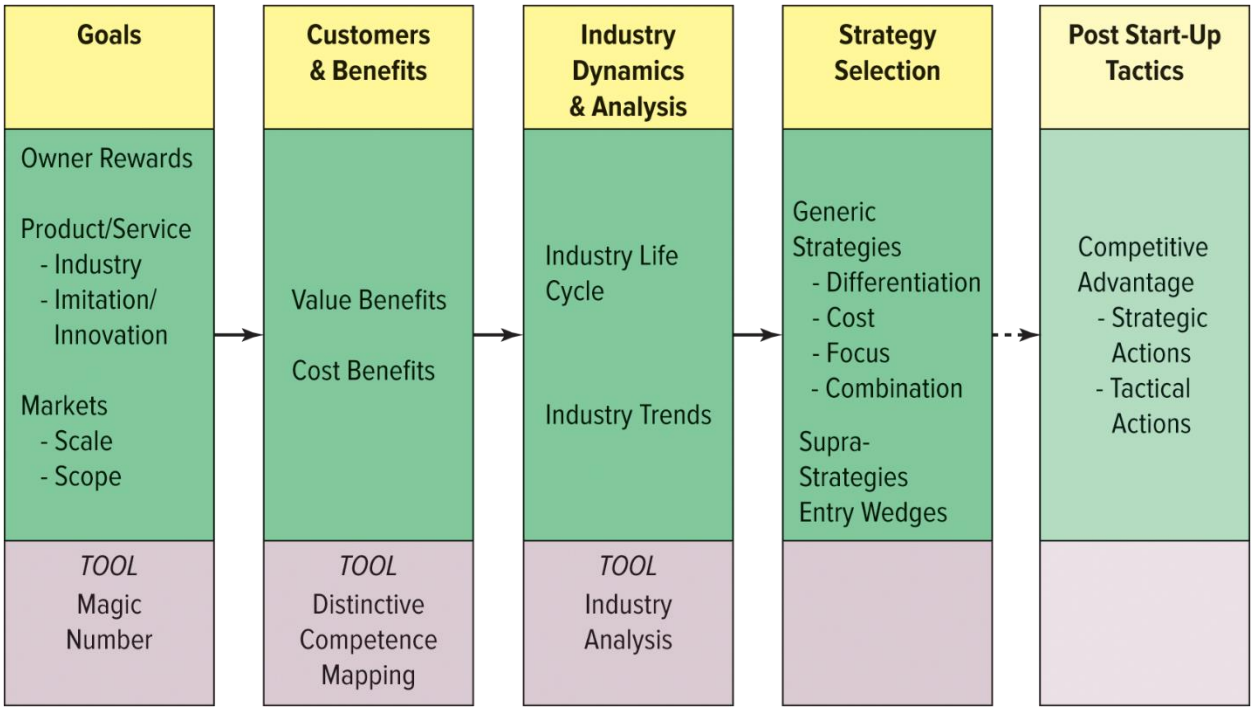
CHAPTER 7 Small Business Strategies: Imitation with a Twist Page 193 LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 7-1 Describe the decisions needed to establish a foundation for strategic planning. LO 7-2 Identify the forms of imitative and innovative businesses. LO 7-3 Articulate the benefits that win over customers. LO 7-4 Assess how industry changes affect strategy. LO 7-5 Explain the major strategies of business—differentiation, cost, and focus. LO 7-6 Determine how to sustain competitive advantage through attracting customers and discouraging competition. • Joe Fischer and Zoë Scharf took time to understand the industry they were planning to go into as well as their market. How did this thorough analysis lead to their success in a market dominated by big companies? Greetabl Focus on Small Business: Joe Fischer, Zoë Scharf, and the Strategy Behind Greetabl1 "We help people make people smile" —Zoë Scharf, Greetabl cofounder For most of his 20s and early 30s, Joe Fischer found himself in recurring situations—a friend's wedding for example. He found he had this need for something that would make his gift of money stand out from the pile of physical greeting cards, online e-cards, and social media wishes his friend was going to get. He imagined a small box with beautiful designs and places you can write your message, into which he could put his gift. Joe started shopping craft stores for tools and materials to make box prototypes and started looking into the greeting card industry. He found IBISWorld's report on the greeting card industry.2 It reported that small new specialty greeting card companies were taking share away from Hallmark and American Greetings, as were digital card companies. Joe imagined his distinctive competence. As he put it, "Relationships matter, and how we celebrate important events in our loved ones' lives matters too. Our fondest memories didn't occur in the digital world, and neither should our best friends' celebrations." The IBISWorld report argued there were opportunities for greeting card manufacturers whose products were innovative, high-quality, and customizable. That was the opportunity he would pursue. Joe had been working by himself on the idea, even to the point of cutting out the corner of a used Honey Nut Cheerios box to make a prototype of the gift box he imagined. Knowing this, around this time friends connected him to Zoë Scharf, a graphic designer. Together they built on Joe's initial idea and the industry research he found to create the original Greetabl, an attractive box in the $5–$7 range, which could contain a present or gift card, and gave the buyer room to write personal messages to the recipient. You would order them online or get them in gift shops. You would fill in the custom messages, fold it together, and send the Greetabl in its own mailing box. Together Joe and Zoë launched Greetabl and the product, joining other small niche start-ups challenging giants Hallmark and American Greetings, whose combined revenues were over $4 billion. Page 194 The first version of Greetabl made it to market as a customizable gift box. You could order it online or buy it in gift, card, and specialty stores, fill it with your gift, write out your message on the box, and mail or give it to the recipient. Customer response was good,

but founders Joe and Zoë felt it could be better, so they talked to customers. They found out purchasers didn't want to take their boxes to the post office to get the right postage. They found out some buyers had trouble putting the box together, and many wanted help on what to put into the box. So, they revamped Greetabl to be a one-stop shop that was entirely online. Joe and Zoë's second version of Greetabl would handle everything including writing the message and mailing. They were expanding their offerings, adding services to the products they launched, and finding more ways to differentiate themselves from the big card companies and their niche competitors. See the Greetabl video at www.youtube.com/watch?time_continue=40&v=CoWIJ41y8Bk. DISCUSSION QUESTIONS Did Joe start with the idea for his business or with the goal of starting a business? What was the role of the IBISWorld industry analysis in the creation of Greetabl? What kind of strategy did Joe and Zoë plan for Greetabl?

Strategy in the Small Business 7-1 Describe the decisions needed to establish a foundation for strategic planning. Strategy is the idea and actions that explain how a firm will make its profit. Whether you know it or not, all small businesses have a strategy. The strategy may be a blueprint for planning or a standard to compare actions against. Either way, strategy defines for you, your customers, and your competition how your business operates. Good strategy leads to greater chances for survival and higher profits for a small business. What makes a strategy good is its fit to the particulars of your business and the resources you can bring to it. In this chapter, we consider how strategy can be created and applied to help your business be its best. Strategy in small business is special because most small businesses are more imitative than innovative. If you are opening a home day-care center, a machine shop, an Italian restaurant, or an online collectible figurine store, these types of businesses already exist. You can find examples, books, and often even magazines to study, as well as trade and professional associations to join. There are special strategies that aim to help imitative businesses be successful. Getting to the useful strategies for a small business is a four-step process. Figure 7.1 shows the strategic planning process for small businesses. The first step involves reviewing and confirming the goals that define your firm and knowing your magic number. The second step is where you consider your customers and the benefits you want to offer them and plot these out against competitors in a procedure called distinctive competence. The third step is to study the dynamics and trends of your industry using a technique called industry analysis in order to identify the best way and time to enter business. The fourth step involves building on the prior three steps to determine the best strategic direction and strategy for the firm. After this four-step process, there is a continuing effort called post start-up which aims to refine your firm's strategies and tactics in order to maintain a competitive advantage. As you can see in

Figure 7.1, strategy builds on four key types of decisions you make about your firm. These may be made formally or informally in your opportunity analysis or feasibility analysis. These decisions are: The major goals you set for your firm. The types of customers you seek and what benefits you plan to offer them. The stage and trend of your chosen industry. The specific generic and supra-strategies you choose to pursue. FIGURE 7.1The Small Business Strategy Process



Goals: The First Step of Strategic Planning Before getting into industry analysis, you as the entrepreneur need to make some very basic decisions about your goals for your prospective business—you, your idea, and your firm. These goal decisions will set the stage for the kind of business you will have and are the foundation for further analyses. There are five initial key goal decisions: As owner, what do you expect out of the business? What is your product or service idea (and its industry)? For your product or service, how innovative or imitative will you be? Scale: Whom do you plan to sell to—everyone or targeted markets? Scope: Where do you plan to sell—locally, regionally, nationally, globally? Owner Rewards For a small business that is starting out, all strategy starts with the owner. As owner, what do you want out of your business? In Chapter 2 we introduced the rewards sought by entrepreneurs from their businesses. Some, like flexibility, personal growth, and

a solid personal income, were pretty universal. Skill Module 7.1 looks at how you can determine your magic number, which is the income you personally seek from the business. Knowing that number from the start, you are better able to evaluate if your proposed business can deliver on that very basic need that everyone reports needing. Other rewards like great wealth and developing a new product or service are mentioned occasionally, while recognition, admiration, power, and family tradition get mentioned least often of all rewards. For Greetabl, the original reward was to generate a product that would solve a problem Joe Fischer repeatedly experienced and felt others shared. SKILL MODULE 7.1 Finding Your Magic Number One key decision all prospective entrepreneurs face is how much they want to make from the business. That's the entrepreneur's "magic number." For full-time entrepreneurs, that number should cover your monthly personal expenses and give you some leftover money to invest, save, and add to your enjoyment of life. If you have ever made a budget, you know how to arrive at that number. For this example, assume you would like to take home $24,000 a year, after taxes. How much would your business need to pay you? A quick way to figure combined federal, state, and city taxes is to check the numbers related to Tax Freedom Day from the Tax Foundation (taxfoundation.org). For 2019, the rate was 29 percent, so the pretax computation would look like: Pretax income = (Your desired posttax income)/(1 − Tax Freedom Day percentage rate) For our example, it would look like this: Pretax income = $24,000 / (1 − 0.29) = $33,802 That is what you would receive before the business taxes are paid. In your feasibility analysis you probably got an idea of what the costs are for your particular type of business. Let's say they are around 75 percent, not including any salary for you. At that level, for you to be able to take home $33,802, your firm would need to sell the amount in the equation (which is the same type of computation as we did on pretax income) below: Company sales = $33,802 / (1 − 0.75) = $135,208 Now you have a starting goal. Here are some basic ideas on what it would take to achieve those sales: Business Unit Sale Number of Units Number per Day Web design $50/hour 2,704 hours 11 hours/day Greetabl box $5/unit 27,042 units 108 units/day The Number per Day gives you an idea of what you need to accomplish each day. For the web design business, we are looking at 250 days a year (5 days a week for 50 weeks). For the original Greetabl box, we are figuring while an online store is open year-round, fulfilling orders is done on a 5-day-a-week basis (so 250 working days again). As you can see from this analysis, the web designer is clearly facing a challenge. She will need to scale back her financial goals, or increase her prices, or rethink her approach in other ways, since few people want to work 11 hours every day. But that is fine; if a few minutes with a pencil and paper can help you get a sense of the task in front of you, it is time well spent. What is your magic number? Whatever the reward or rewards you seek—it is fine to want more than one—it should be central to your creating the business. In a very real sense, what you want from the business is the core of your and your firm's strategy. It is the "why" that drives the

process of entrepreneurship. Product/Service Idea and Industry Along with this pursuit of rewards, there is often an idea for the business. Recall in Chapter 4 we saw that 36 percent of businesses start with an idea that energizes the entrepreneur to start a firm. For 23 percent, the desire to start their own business comes first, while for 41 percent, the idea and the desire to start a business are simultaneous.3 Greetabl was one of those cases where the idea (the box) came first. Whichever applies in your case, the fact is that the idea for a product or service and the idea to start a business to earn rewards make up the core of strategy—what you plan to do and why you are doing that. The process for evaluating ideas, called the feasibility study, was detailed in Chapter 4. For the purposes of this chapter, we will assume you know your idea is feasible. Page 196 Some entrepreneurs may start a firm to get the product or service out, while others may create the product or service and have agents find firms to use it, which is the consignment process described in Chapter 5. Either way, the idea gets made real as a product (something physical a customer buys) or a service (activities undertaken on a customer's behalf). It is possible to combine products and services, like a GM auto that comes with the OnStar cell phone service. You can learn more about that in Chapter 9. If you have in mind a product or service, you also have an industry. Industry is the general name for the line of product or service being sold. Examples include the restaurant industry, the computer consulting industry, and the collectible doll industry. In addition to a name, industries have numeric codes, North American Industry Classification System (NAICS) codes,4 which are discussed below. Industry is vitally important to your core strategy decisions because simply put, there are industries that are more profitable than others. Page 197 In fact, picking the right industry is key to the success of your small business. Stanley and Danko,5 in The Millionaire Next Door, point out that two-thirds of all millionaires are self-employed. They say that the key to being successful is selecting an industry that offers good potential for making a profit and attractive opportunities to work with a minimum of risk and competition. These industries are described as having high industry attractiveness. Stanley and Danko were surprised to discover that most millionaires who owned businesses are in industries like scrap metal, coal mining, and dry cleaning. It turns out that industries that are attractive from a profit-making sense may not be the industries thought of as attractive places to work. But choosing one of these attractive industries can do a lot to help your firm survive and you to be successful. Industries that do well in good times and poor historically include financial firms tied to banking, health-related firms, insurance firms (especially related to health), and business consulting.6 When talking about the small business myths in Chapter 1, other occupations that came up included bookkeeping, credit counseling, and tax preparation.7 Figure 7.2 gives information about a number of industry sectors and some popular individual businesses to help you get an idea of the relative attractiveness of industries (based on their profitability), and the expected level of

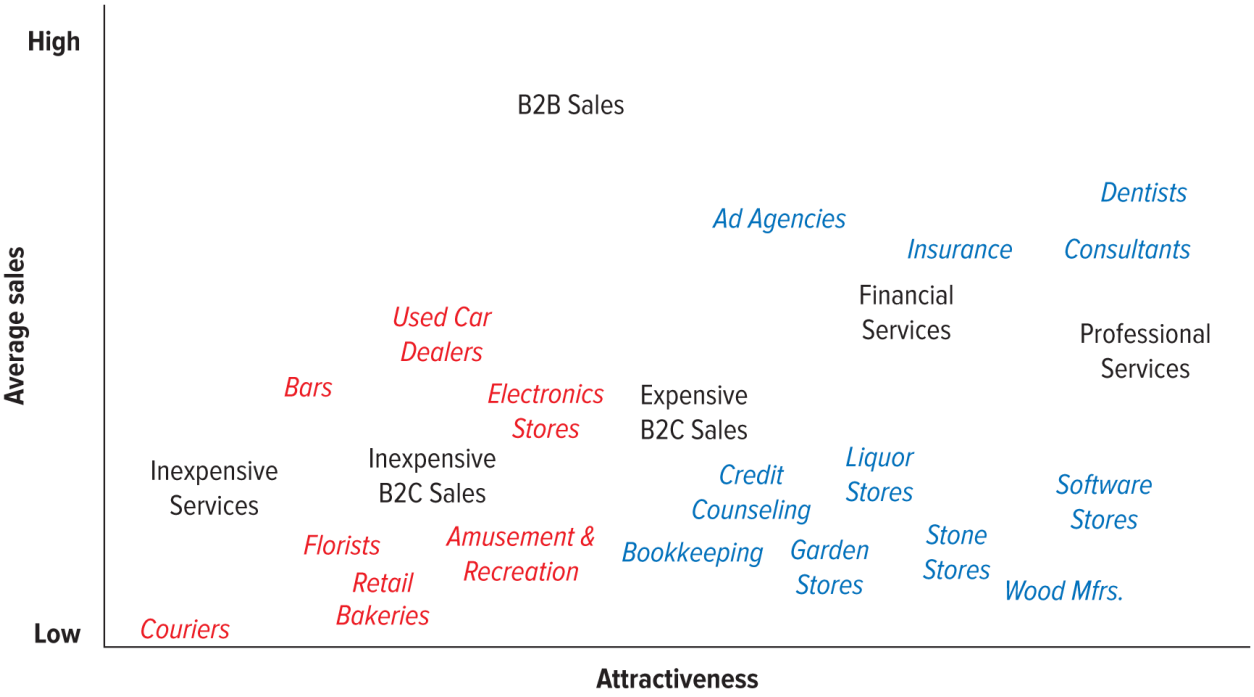
sales. FIGURE 7.2Attractiveness of Selected Industries and Lines of Business Note: Industries shown in blue are the most profitable, while industries shown in red are the least profitable. Averages for major industrial sectors are shown in black. If you know the industry's code number (see Skill Module 7.2 to find out how to do this), you can find out a tremendous amount of information about the industry. This is because most information is coded using the industry number. From the work done by marketing researchers Stanley and Danko8 as well as Bizminer.com and others, we know there are between 15,000 to 30,000 different industries in the United States. There are two major classification systems that code industries: the new NAICS and the better-known SIC. SIC codes have four digits; NAICS have six. NAICS covers more industries and more of the newer types of industries. Skill Module 7.2 gives you help in finding the NAICS and SIC codes for the industry for your business. SKILL MODULE 7.2 Finding Your Firm's Industry The government organizes firms by their industry and gives each industry a formal name and numerical code. That coding system is called the North American Industry Classification System: United States, 2012 (NAICS, 2012). Knowing the formal name and NAICS number can help you find a wealth of government data on your target industry. It's easiest to search online using the Census Business Builder. Go to cbb.census.gov and find the text box that says "or Search for your type of business." Enter the name of your industry. For today's example, think about opening a hamburger and fries sort of restaurant to compete with McDonald's in your little corner of Texas. For our example, you could start typing "restaurant" and you'll begin to see all sorts of industries with those letters in the name. Scroll down and you will see "Limited-service restaurants," which is what we're seeking. Its NAICS code is 722513. In this case, Limited Service Restaurants are what the government calls fast-food restaurants. Click on the hot link, and you'll find yourself looking at a hotlink saying "You selected; Fast Food." If you look to the right, there is question 2. Where are you considering locating the business?" Here you can type in the location of interest to you and generate a map or report with information on that industry in the locality you pick. Let's type San Antonio and choose "San Antonio city, Texas." Then pick "Create Report." The resulting report will have a section "My Potential Customers" (the people of San Antonio), a section called the "Business Summary" about the fast-food sector in San Antonio, and a section titled "Consumer Spending" which includes the section "Consumer expenditures per household on Dining out (food away from home)." The Business Summary includes information on businesses with employees (and if there are owner-only businesses, called nonemployer businesses, they get listed separately), business revenues, exports, and workforce data. Depending on the industry and locality, some sections of the report may be empty. For example, in this report San Antonio, Texas, had 1,136 fast-food restaurants (establishments), employing 25,608 people, or 23 employees per establishment, who were paid on average $12,807. You can check out the population per restaurant, the range of sizes of restaurants, and their

legal form of organization. You can even compare your proposed business to the state and national statistics by checking the graphs that accompany this table. The latest data reported were from 2016. Armed with the NAICS codes, you can go to library and online sources listed later in the chapter in Table 7.1 to find more detailed information about the industry you're thinking of entering. The key to finding information about industries is knowing how to check the information, and NAICS codes are essential to that. It is also important to know that there are no "safe" industries. In much the same way that families and societies are living things—things that are born, mature, and can die—industries can be considered living too. When you were in kindergarten, coffee shops were a dead industry in most of the country. However, today, with Starbucks, Panera Bread, Seattle's Best, and a host of independent coffee shops blanketing the country, the industry has been revived through franchises, company-owned stores, and innovative independents. Page 198 Imitation and Innovation 7-2 Identify the forms of imitative and innovative businesses. This chapter's subtitle is "Imitation with a Twist." The idea reflects the fact that for most small businesses, the owner wants to be a lot like others in the industry, but not exactly like them. Owners who elect to imitate their competitors still want to have something that distinguishes them from the others—something that makes the owner's firm special and better. That special and better element—that innovation amid a lot of imitation—gives us the kind of entrepreneurial thinking behind the chapter title. The choice between imitation and innovation is truly important and often overlooked. Businesses, especially new firms, can do more or less what others are already doing—an imitative strategy—or they can start doing something that is very different from what others do—an innovative strategy. Imitation is the classic small business strategy. We know from the PSED that almost two-thirds of people starting businesses today plan to use imitation as their approach.9 There are several advantages to using an imitative strategy.10 You benefit from being able to buy existing technologies, such as industrial grade washing machines for a laundromat, web servers for a hosting service, or calligraphy pens for greeting card publishing. Architects, builders, real estate agents, zoning boards, equipment manufacturers, equipment servicing companies, and banks are more likely to understand the industry and what is expected. Because of this, they can give you firm estimates of costs and schedules. With imitative approaches, there is also the possibility to buy existing businesses. Page 199 Perhaps the key benefit of an imitative strategy comes from your customers. Chances are they already know about the kind of product or service you are offering. This means your marketing efforts can focus on the benefits you offer instead of explaining the product itself. When you elect an innovative strategy, you have the benefit of making your business precisely fit your own ideas and preferences. Take the example of snowboards. When Dimitrije Milovich built the first modern snowboard in 1969, he not only had to have the product available for purchase, but he also had to inform the customers that such a

product existed and how it could be used. With highly innovative businesses, there is often not much opportunity to sell the business, and the owner spends a lot of energy in creating the processes and markets as well as informing suppliers, resellers, and investors about the new product or service. In practice, most firms use imitation plus or minus one degree of similarity. Imitation minus one degree of similarity would be the business equivalent of cloning. It is franchising, first discussed in Chapter 6, in which you purchase a precise and complete copy of an existing business from the franchisor. Imitation itself involves patterning a business on existing firms and processes. Your imitation is not likely to match the precision or completeness of copying seen in franchising, since you are unlikely to have all the information about the model businesses or processes. You may also adapt your business to fit local situations or your current situation. You might pattern your new Italian restaurant after the Olive Garden, but you end up buying your equipment and food from different sources and add local favorites, such as toasted ravioli in St. Louis, barbeque pizza in Memphis, or deep-dish pizza in Chicago. This approach is called parallel competition. Imitation plus one degree of similarity is where you look at existing businesses and pattern yourself after them, with the exception of one or two key areas in which you seek to do things in a new, and hopefully better, way. This is called incremental innovation and is second only to parallel competition in frequency. You have seen it in the fast-food business where Burger King told customers “have it your way.” This approach was bettered by Wendy’s, which offered custom-built hamburgers that were, in addition, “hot and juicy.” Hardee’s moved into the fray with supersized custom burgers. Each company makes custom-built hamburgers, but each added a small innovation to differentiate it from its competition. Small businesses do the same thing, whether they are offering haircuts or golf clubs. • Cirque du Soleil upended the classic idea of a circus with a more theatrical, themed and musical experience. What kinds of marketing challenges might a pure innovation product or service pose to a small business owner? PA Images/Alamy Stock Photo The last type is pure innovation, also called a blue ocean strategy, which results in a new product or service. These situations are rare. Typically with a new product or service, you also have a unique setting. For example, consider Cirque du Soleil, which started as a French Canadian circus, but transformed itself into what it calls a “contemporary circus.” This means that each show is a theatrical performance, building each program on a unique theme and musical score. While the human acts common to circuses, like acrobats, clowns, and aerialists, are present, there are no animals. Instead of targeting children and families, Cirque aims for adults and corporate clients looking for a unique, live entertainment experience for which they are prepared to pay several times more per ticket than traditional circuses. At a time when traditional circuses are deteriorating (with Ringling Brothers Barnum and Bailey closing in 2017 after 148 years), in 2019 Cirque du Soleil is running 10 different shows around the world, and inspiring a new generation of

contemporary circuses like Circus Smirkus or the Pickle Family Circus. It has achieved this by getting out of a crowded, eat-your-competitor "red ocean" and aiming for a "blue ocean" of uncontested market space.11 Page 200 These ideas lead to a simple set of strategic moves that can help you think about how to compete better as an imitator. Think of the case of the upstart Netflix, which became a major player in the video rental business, but was a relative latecomer.12 Parallel innovation Use the standard-setter's approach for lower start-up costs: Blockbuster set the standard, so the software and basic inventory for video rental existed. Don't make the mistakes the leader is making: Blockbuster customers complained about lack of selection and out-of-stock movies, so Netflix had a larger selection and arranged to avoid stock-outs. Incremental innovation Take it to the next level: Pick one area important to customers to do much better than the pioneer. You can be easier, cheaper, or offer higher quality. Netflix offered avid movie renters a better financial deal and better selection. Borrow from outside: If another industry has a solution that works (and people know about and like), imitate that idea in your home industry. Netflix married the book clubs' use of mail and the video rental model of Blockbuster. Remember that a lot of research shows that imitators do better than pioneers in the long run.13 For example, we know Boeing, Microsoft, and Google, but these are all imitative companies. The pioneers in their industries were companies like Wright or Curtis (airplanes), Digital Research (PC operating systems), Wandex (web searching), and Overture (keyword ad sales). When you do imitation well, it can do well by you. To Whom Will You Sell? A market is the business term for the population of customers for your product or service. If you know your market inside and out, you are likely to know much of the key information for how to be successful in your line of business. Many of the decisions related to markets will be covered in Part 3 of this textbook. But there are two strategic decisions about your market in general that you need to make early in the process of going into business. One of these is the scale of the market, which is the size of the market—whether you plan to aim for a mass market or a niche market. The other is the scope of the market, which defines the geographic range covered by the market—from local to global. Scale: Mass or Niche When you think about the market for your product or service, you typically have two choices. A mass market is a market that involves large portions of the population—all men, all women, all teens, all elderly, all families, all manufacturers, all restaurants. Mass markets are broad, and a mass-market approach targets the entire market. A niche market is a narrowly defined segment of the population that is likely to share interests or concerns—25- to 34-year-old women, families with twins, student athletes, Italian restaurants, manufacturers in your city. Niche markets are specific and narrow, and in a niche market approach, you try to target only customers in the niche. Most industries have both mass and niche markets. For example, the greeting card industry has mass-market giants like Hallmark and American Greetings, which advertise nationally on TV (a sure sign

of a mass marketer). However, the industry is also full of niche markets. For example, Maria Peevey and Lisa Bicker started SimplyShe with greeting cards targeting women going through trying life experiences such as breakups, motherhood, or weddings. Having identified their niche and its needs, they market their cards through specialty fashion boutiques such as Henri Bendel, as well as online.14 Page 201 Scope: Local to Global Market scope is related to market scale. Market scope refers to the geography of your target market. It can be local (like a neighborhood or a city), regional (e.g., a metropolitan area or a state), national, international (usually meaning two to a few countries), or global (meaning everywhere). Owners of the businesses studied in the PSED15 were asked how much of their business they thought would come from each of the geographic categories. Overall, they estimated that 58 percent of sales would be local (within 20 miles), 30 percent would be regional (from 21 to 100 miles), 22 percent would be national (from 100 miles out to the rest of the United States), and only 4 percent would be international (outside the United States). Market scope is important for two reasons. First, knowing your market scope helps you decide where to focus your sales and advertising efforts. The second benefit is that knowing your target market gives you a way to determine which potential competitors you need to worry about most, namely those also in your market scope. In the goal step, the key is to bring together the decisions that underlie the business you hope to own. This starts with you and the rewards you seek; the product or service you plan to offer for sale to achieve those rewards; and the industry and markets with which you and your firm will plan to deal. Armed with this basic understanding of your firm, you are ready to begin developing a strategy to achieve your goals. Very often, it starts with a closer consideration of your potential customers and what you can do with your product or service to best catch their attention.



Customers and Benefits: The Second Step of Strategic Planning 7-3 Articulate the benefits that win over customers. Strategy and marketing are closely connected in the planning and everyday operation of any business because together they define the who, how, and why of

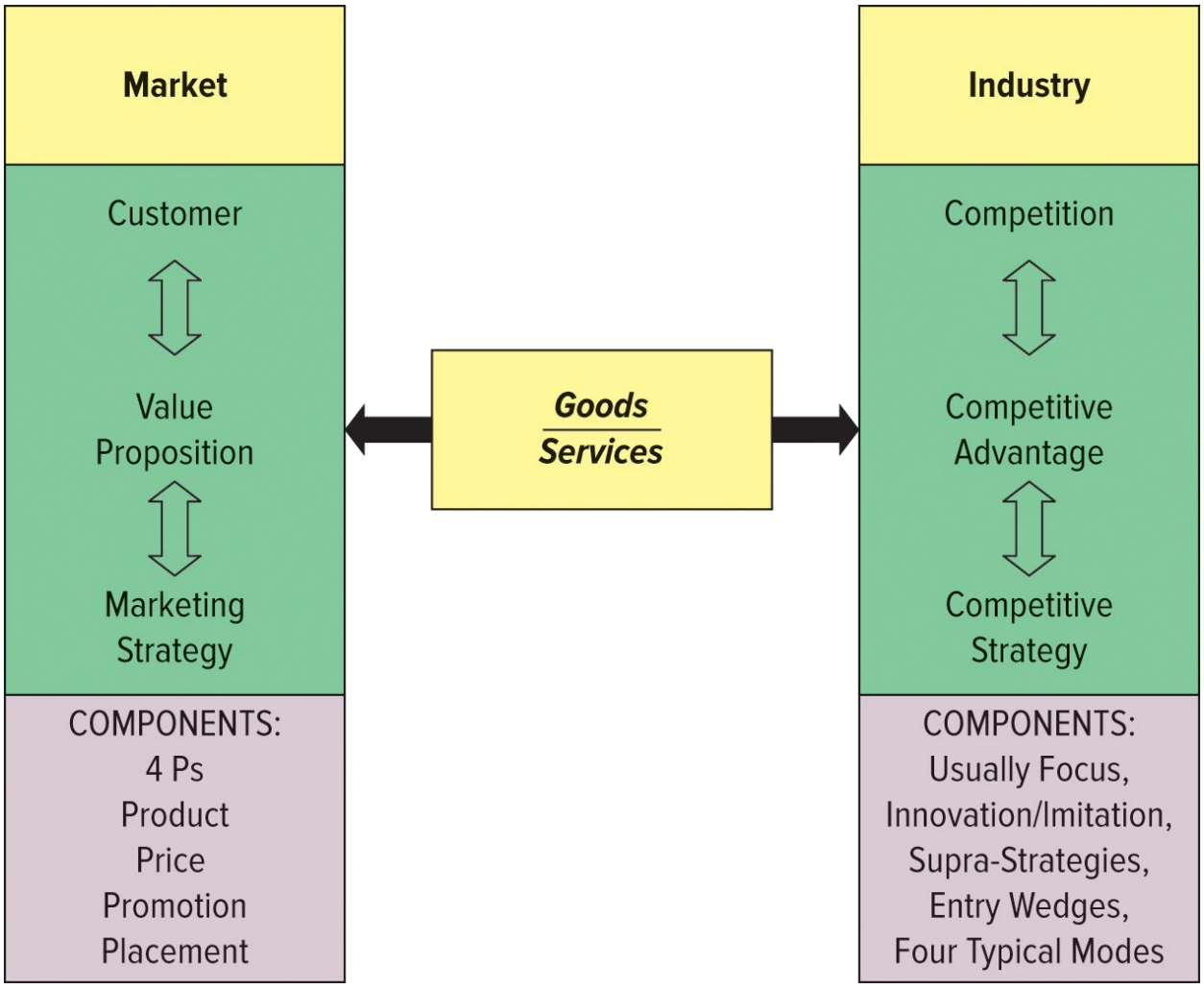
the business's operations. As noted earlier, strategy is the idea and actions that explain how a business makes its profits, while marketing is the actions of a business related to promoting and selling goods or services. Both strategy and marketing are defined in large part by the specific products or services being sold, but they focus on different aspects. As Figure 7.3 shows, marketing focuses on the customers with the key being the goods' or services' value proposition, while strategy focuses on the competition, with the key being the goods', services', or firm's competitive advantage over the other firms. FIGURE 7.3How Strategy and Marketing Relate This chapter concentrates on building the right side of Figure 7.3, while the chapters in Part 3 will focus on the left side of the figure. But to figure out the competitive advantage, we need to look at something central to the market and the strategy—the benefits the goods or services offer. So, in this second step of the strategic planning process, the focus is on the kinds of customers you want to sell to and the benefits that will attract them. Just as there are industries that offer better and worse opportunities, there are customers whom entrepreneurs prefer. Customers who offer the kinds of rewards you are seeking are generally those you are most likely to view positively. If you are interested in great wealth, having customers who are themselves wealthy and not very sensitive to price issues would be seen as rewarding. If growth is your goal, having customers from whom you can learn and who expect things to be constantly new and improved will help you meet your goal. There are also some types of customers often seen as particularly attractive. These include: Corporate customers: Look at Figure 7.2 and compare the B2B (wholesale) to B2C (retail) sales. Selling to other businesses may produce greater profits. Loyal customers: Loyal customers return and are already presold, making your life easier. They also refer friends, another source of revenue. Local customers: This was originally true because as the owner you could keep tabs on the satisfaction of local customers more easily than distant ones; but in the digital age, it is less about geographic proximity than about you taking the time to stay in touch with your customers. Passionate customers: People who are not just loyal but are likely to rave about your business are likely to generate more potential customers than any other type. Page 202 There are literally dozens of beliefs about the best customers. Most of them have at least a germ of truth about them. You can learn about the types of customers in your intended line of business by talking to other entrepreneurs already in the business, and by researching the business in the trade press (to find these, refer back to Skill Module 3.1). Look for terms like "customer profile" and "preferred customers" as well as articles about "loyalty programs" and "repeat customers." These articles are most likely to have information about the most prized customers in your proposed line of business. The point is that thinking ahead about the kinds of customers with whom you want to deal is the best way to orient your strategic planning process toward finding those customers when you get to picking a strategy. As you decide on the types of customers you want to encounter, your

next step is thinking about the kind of benefits you can offer them to help meet their needs with your product or service. Value and Cost Benefits Benefits are characteristics of a product or service that the target customers would consider worthwhile, such as low cost or high quality. The best way to identify desirable benefits is through potential customers. You can do this directly through interviews, focus groups, or questionnaires (see Chapter 9 for more details on how to do this), or indirectly through reviewing websites using the techniques given in Skill Module 7.3. Ratings and complaints for products and companies can give you valuable information on what benefits people want, and might want more of. Usually the benefits focus on value added to the product or service or on the cost of the product or service. SKILL MODULE 7.3 Checking Customer Opinions Online Today there are many ways to quickly assemble information about products or services from customers from online sources. For this exercise, imagine you would like to produce and market a new iPhone case. The following list will point you to online sources you can use to build a profile of customers and their opinions. The list starts with the most direct ways to find opinions, and shows more complex ways to find opinions as you work your way down the list. Amazon.com should be your first stop because it does an outstanding job of soliciting and displaying large numbers of customer ratings on a wide range of products. Competitors like eBay.com or shopping.google.com can also be worth checking. When you have a particular product or service in mind, try to start with a website that specializes in it (or type the product name into Google). You can go to the major customer opinion sites to see if they have anything on iPhone cases. Googling "top customer opinion websites" will get you articles giving lists and reviews of the best such websites. Yelp.com, Tripadvisor.com, and AngiesList.com are also important sources for customer opinions about services. Most manufacturers provide a customer opinion web page and from that you can learn a wealth of information about your competitors' products. Finally, you can look for blogs on the subject. Typing "iPhone case blogs" into Google or Yahoo! will point to blogs with individuals passionate about a variety of topics and who along the way mention iPhone cases. With these reviews, you look for themes about what satisfies and dissatisfies customers. What these reviews miss are potential customers—people who did not buy. On the other hand, those who provide reviews tend to be the more passionate customers—pro or con. You can get a wealth of information from dozens of people for free in a matter of minutes. Beware that one problem is the "fake review," often gushingly positive reviews that turn out to have been written by the manufacturer or reseller. That is why it is important to get reviews and comments from different sites and keep an eye out for similar-sounding reviews. You can get help assessing reviews using sites like www.fakespot.com.16 When presenting your results, list the sites you visited and the number of customer reviews you analyzed. You can use the value benefits list to categorize your findings, or make a set of categories that fit the special features of your product or

service. Finding online reviews can be fast and easy, but it helps when you supplement this with in-person reviews of users to get a better "feel" for how consumers think about the product. We will talk more about this sort of research in Part 3 of the text. • These two burgers have very similar costs for raw materials and preparation, but one costs $2 more than the other because of the value benefits it offers. (left): Ingram Publishing/SuperStock; (right): P Maxwell/Shutterstock Benefits are usually characterized as value benefits or cost benefits. A value benefit displays characteristics related to the nature of the product or service itself. Things like quality, fashion, and reputation are elements that give a product or service value in the eyes of the customer. A complete list is given in Exhibit 7.1 on value and cost benefits.17 Value benefits are important because they are almost always what lead to higher prices and higher profits. For example, McDonald's Big Mac often costs $2 more than its double cheeseburger. The difference between them are some sesame seeds, a third piece of bun between the top and bottom patty, the "special" Big Mac sauce, and some lettuce. Both have two all-beef patties, two buns, and cheese, which you would figure (correctly) are the major costs of the sandwiches. But people pay far more for the Big Mac and pay it far more often. Next time, ask your friends why they do that. The answers you will get will tell you a lot about value benefits, and how much people will pay for them. EXHIBIT 7.1Value and Cost Benefits Value Benefits Quality: Offering a quality level others do not. It can be the highest quality, just enough quality to meet the basic need, or a bit more quality than is typical for the price. Offering guarantees and warranties also reflects quality benefits. Style: Items that are beautiful, fashionable, popular, or otherwise aesthetically pleasing. Delivery: Sometimes simply offering delivery is enough, but other times you may need to deliver quickly, on schedule, or where others do not. Service: Examples include the go-the-extra-mile sort, the personalized know-your-customer's-name sort, the we-serve-you-in-one-minute sort, or even the service-after-the-sale sort. Technology: You can offer state-of-the-art or leading-edge technology, technology that others do not have, or technology that automates or simplifies tasks or that meets industry standards. Offering complementary technology such as voice mail or answering machines to people with telephones also fits in here. Shopping ease: Providing one-stop shopping; having all of a product line; making ordering, returning, or upgrading easy for the customer are all benefits. Personalization: This can come in building custom products or services, or personalizing the customer experience. Assurance: Offering guarantees, warranties, or service that takes the risk out of buying your product or service. Place: Being conveniently local is one example. Being willing to sell and deliver where others do not is another. Credit: One key benefit small businesses offer customers can be extending credit where larger firms and chain stores will not. Brand/reputation: This can come from the products or services that you offer, or from your own firm's reputation. Belonging: Some products confer value because they make the customer part of a larger group, such as a member of

a club or an online gaming community. Altruism: If your product helps the community, a group, the environment, or the world, it is a benefit. Cost Benefits Lower costs: Operating from your home, getting family members to contribute their time for free, or selling something you've already gotten your value out of are all examples of ways small businesses keep their costs low. Scale savings: Buying in volume usually produces savings, so some firms buy in bulk and sell or repackage in smaller amounts, passing along some of the cost savings. Scope savings: A multifunction printer has a broad scope—it combines a printer, a scanner, and a fax machine into one box. This is because they can share parts, and this sharing results in lower costs. Learning: As a firm gets more experience, it can often work with fewer mistakes and greater efficiencies, thereby lowering costs. Organizational practices: Possibly a small business has automated or professionalized or mastered a product or service to the extent it can do it more cheaply than others. Page 203 While value benefits refer to what the customer senses in the product or service, cost benefits refer to the ways by which a firm can keep costs low for the customer. These include scale and scope savings. It is often important for customers to know one of these cost benefit reasons why a product or service has a low price so that they do not erroneously conclude that your firm has cut price by cutting quality. Page 205 Benefits are central to how you appeal to your target customer base. Picking benefits customers find attractive makes your firm attractive to them. Picking customer-desired benefits that your competitors do not offer is a powerful way to make your firm stand out from the competition. Benefits drive your firm's offering to its customers and influence every part of the strategy process. As we will see later, benefits can be combined to offer themed strategic packages. Offering the benefits your customers want opens up the possibility of your being able to charge a premium price and make higher profits, since people are willing to pay for value-based benefits they desire. Having cost-based benefits can also increase profits by lowering your cost of doing business, and thereby increasing your margin relative to your competition's. Therefore, it is easy to see how benefits help you select a strategy that improves your firm's profitability. As you decide what benefits to offer, you open up the possibility of using a powerful strategic analysis tool called a distinctive competence map. Distinctive competence maps are a graphic display of your firm's product or service, compared to that of your competitors. You map the features and benefits you offer, and your competitors offer. It often helps to use the value and cost-related ideas from the list in Exhibit 7.1 to get started, but feel free to include ideas you come up with and also the ideas you hear from customers or prospective customers. Core competencies are those skills that you and pretty much all of your competitors have. Every fast-food burger place you know about has similar core competencies around making burgers, fries, and shakes, serving you quickly, and handling dine-in, drive-through, and online ordering. But they also have features that differentiate them. As we noted, this

becomes Burger King's "have it your way" model for customization, or Wendy's "hot and juicy" burgers, or Hardee's supersized burgers, or McDonald's value menu. Those differentiating features are how the firms describe their distinctive competence, or specialty. To stand out in any industry, you need to meet the core competencies of your competitors, but also offer something distinctive that you do well. Here is where "imitation with a twist" meets "distinctive competence." Skill Module 7.4 takes you through developing a distinctive competence map. SKILL MODULE 7.4 Mapping Your Distinctive Competence Mapping your distinctive competence is done in comparison to your competitors. Mapping it works best with sticky notes or pencil or chalk. You will be moving things around. Start with the two overlapping circles, you and your competitors' firms: Start with the "YOU" circle, listing the features and benefits of the product or service you are considering. You can use examples from Exhibit 7.1 and add-in other features and benefits in your own words, or those of customers or prospective customers. Repeat this in the "YOUR COMPETITORS" circle for competitors' similar offerings. It may help to focus if you start by considering only the competitor you think will be the most likely choice of your customers. Move entries for features you both have into the overlapping area for now. That area represents the core competency of firms in your industry, the basic features or benefits or actions that anyone in your industry must have to be successful. What is left in each circle are the distinctive competencies of your firm and your competitors'. The distinctive competencies in your circle are the key factors in describing the competitive advantage you offer your customers. Save your results because you will use them again in Skill Module 9.8 "Coordinating Your Distinctive Competence and Value Proposition." Page 206 In the end, the set of benefits you offer your customers will probably look a lot like what your competitors offer. The key is to have one or more benefits that are important to your customers that your competitors don't offer. Those benefits represent your competitive advantage, which we will come back to at the end of the chapter.


Market
Customer
Value Proposition
Marketing Strategy
COMPONENTS:
4 Ps
Product
Price
Promotion
Placement
Goods
Services
Industry
Competition
Competitive Advantage
Competitive Strategy
COMPONENTS:
Usually Focus,
Innovation/Imitation,
Supra-Strategies,
Entry Wedges,
Four Typical Modes

Industry Dynamics and Analysis: The Third Step of Strategic Planning 7-4 Assess how industry changes affect strategy. Industry refers not only to your product or service, but also to all the firms selling that product or service; in other words, your competitors. In

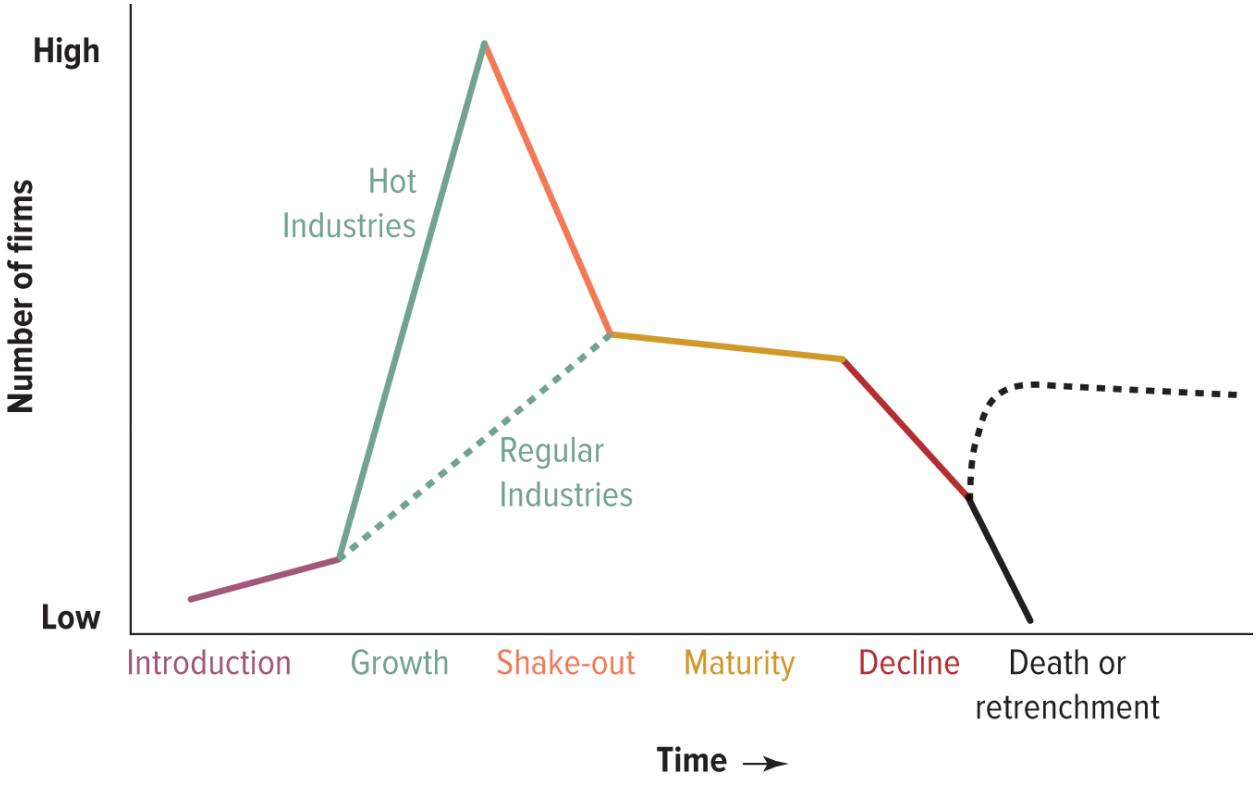
setting strategy you need to look at your competitors in order to best position your firm, but you also want to look at the changes in competitors, sales, and profits in your industry—what are called the industry dynamics—to make sure it is a good time to enter it. It turns out the fortunes of industries move in a predictable way. Figure 7.4 shows the two ways the number of firms in an industry change.18 Most industries' introduction stage starts with only a few firms. These firms elected to be innovative in their approach, making a new product or offering a new service. The number of firms typically grows slowly at first. Sales are probably small, and most customers are largely unaware of the offering. When enough customers have bought the product so that it begins to draw the attention of the general public, there are two possibilities for the growth stage. Most products and services tend to grow at a regular rate, one at which the growth in the number of firms more or less meets customer demand. However, some products or services turn out to be extremely popular or "hot" and grow very rapidly. In these cases, the original firms are unable to keep up with consumer demand. Other firms jump in to take advantage of the growth; this stage is often called the boom. Firms begin to compete on features and price, and there may seem to be an explosion of choices. Eventually, all such booms come to an end, and there is a stage called the shake-out in which many of the firms close down. This phase ends as the rapid die-off of firms stops. FIGURE 7.4The Industry Life Cycle Page 207 Whether through slow and steady growth or a boom and shake-out cycle, the industry eventually reaches a relatively stable number of firms, with minor variations and a slow drop in numbers. This is called the maturity stage. Eventually mature industries begin a decline stage. Some industries face death, while others find new life in a process called retrenchment. We will look at those stages later in this chapter. Starting early is not always a guarantee of eventual success. Consider cars—the original car companies were small businesses. Charles and Frank Duryea, brothers who created a family business, made the first production car in the United States in 1893. Firms from the start-up stage included Duryea, Winton, and Studebaker as well as Olds, Cadillac, and Ford. The boom started in 1905 and went to 1915 with over 75 auto manufacturers, many of them still small businesses. In the shake-out during World War I, the number dropped into the teens, settling into the maturity phase of the Big 3 (GM, Ford, and Fiat Chrysler) who survived into the twenty-first century. Industry dynamics are important in telling you and potential partners or investors about the prospects for the industry as a whole. Obviously it is easier to sell people on your business when the whole industry is growing. If the industry is not growing there are still ways to be successful, but as a start-up you need to have worked through these ahead of time. After the 9/11 attacks, many airlines gave up routes due to the downturn in air travel. This market relinquishment opened up opportunities for new small airlines in the cities abandoned by the major airlines. Remember, there are small businesses started in every industry at every stage of the industry life cycle. Knowing where your industry is in the life cycle helps you

craft the best strategy for success. Tool: Industry Analysis Armed with the concepts and preliminary information about the product/service and the market, you are ready to do a preliminary industry analysis. Industry analysis (IA) is a research process that provides the entrepreneur with key information about the industry, such as its current situation and trends. Most entrepreneurs initially do an IA to find out what the profits are in an industry in order to better estimate possible financial returns. Taking this one step further, finding out how those profits are generated often makes the difference between success and failure. Armed with this information, the entrepreneur can tell if the industry is growing, stable, or in decline and what the degree of competition is. Skill Module 7.5 provides a how-to description for gathering the key types of information needed to perform an industry analysis. It also explains how the information is useful. For a complete example of an industry analysis, see this chapter's appendix. SKILL MODULE 7.5 Short and Sweet Industry Analysis The basics of industry analysis (IA) consist of knowing seven pieces of information: NAICS number and description (online): Getting this information is detailed in Skill Module 7.2. It is important to know this number in order to search for other information about the firm. Industry size over time (online): Getting this information is detailed in Skill Module 7.2 for 2016 data for San Antonio, but the Census Business Builder can also generate data for any industry across all of the United States. These numbers tell you the overall trend (growing, stable, declining). Profitability: Profits are key. You can get the basic information for a wide variety of industries from the BizStats.com website under "Sole Proprietor." Select the description of your business (you will find restaurants listed under "Accommodation-Food services-Drinking Places" and then "Food Services-Drinking Places"). Look for gross profit (what is left after deducting the cost of goods sold) and net profit (what is left after deducting the operating expenses of the business). You can get more detailed reports for more individual industries for a fee from the Risk Management Association (RMA) or Bizminer websites, or you can check if your school or local library has a copy of the RMA's Annual Statement Studies: Financial Ratio Benchmarks. One valuable number you can find in the RMA report is the profit before taxes, which represents the amount of money the owners take out of the firm annually and on which they pay taxes. When the business can sustain it, owners tend to put their salaries in the operating expense category. However, if the firm cannot afford the owners' salaries, the only income is the profit before taxes. How profits are made (interview or articles): Armed with the previously listed information, you can look for the last piece of the puzzle—how profits are made. It isn't always obvious. McDonald's single biggest source of profit is real estate; GM's is financing! Toy stores make almost all their profit during the Christmas shopping season. There are usually four activities to evaluate. One is what can be done to generate more sales. Second is a judgment of whether it is possible to charge a premium for a product or service. Third is how to keep the cost of goods or services below the industry's

average. Fourth is looking at ways to keep operating expenses below industry averages. Small businesses may use one or more of these approaches. Finding out which get used and the specifics of how they are used generally requires either talking to people in the industry or checking out the industry press. Skill Module 3.1 talks about where to find the trade and professional press for particular industries. If you go the interview route, you can talk to people at companies in the industry. Among the owners most willing to talk are those who have been officers in trade and professional associations or owners of businesses who would not see you as competition, such as owners in other cities. Whenever possible, try to get at least five different sources to make sure you know what is really going on. Target market competitor concentration (directory checking): By looking at the listings for local and commercial directories, companies' websites, and map searches such as maps.google.com, you can get an idea of the market scope and scale of the businesses with whom you'll be competing. For example, keeping with our fast-food theme, type into Google Maps "fast food restaurants near San Antonio, TX 78205." You'll see a map and listing of restaurants, which you can use to count those places you see as competitors. By getting the number that matches your firm in scale and scope, you can get a clear idea of the concentration of competitors in your segment of the industry—and whom you will need to keep an eye on. Analysis: In general, the data you have gathered are put into a report, which helps readers understand what the numbers mean for the industry under consideration. When analyzing the industry, give an overview of the industry (e.g., growing, stable, declining, does it have any major segments like fine-dining versus quick-service restaurants) in words and numbers, its size and profitability (as well as the trends for each over the past three to five years), and the major strategies by which businesses in the industry make money (e.g., cost or differentiation strategies; see the section "Strategy Selection: The Fourth Step in Strategic Planning" later in this chapter). Sources: Let readers know where you obtained your information (e.g., books, websites, or personal interviews). It is important to assure them of the quality of your work. Without sources, you could be accused of plagiarism. Page 208 What are you looking for in your industry analysis? You want a business that can help you meet the magic number you determined earlier in the chapter. In looking at the other numbers in the industry analysis, you may see ways to cut costs, or leverage friends or expertise or other resources available to you to make your business more profitable than the average one. That can be a tremendously useful finding. Knowing the stage and trend in the industry is important to thinking about how you will enter the industry. Going into an established industry means it is easy to find locations, equipment, and experienced people (think pizza parlors). Going into an industry early may mean you have to spend more time and money doing things for yourself. It is better to know these things early. If the analysis tells you that you are facing a lot of competition, you want to pay particular attention in building or rebuilding your perceptual

map to find a set of benefits that will help your firm stand out. All in all, an industry analysis is central to your plotting of your firm's strategy. Page 209 Table 7.1 provides a listing of many of the key databases used in assembling industry analyses. Some are online, while others are in book form and available in local libraries. Armed with the information from your industry analysis, you are in a better position to decide if the industry meets your needs for income (which comes from profits and operating revenues), financial growth (depending on the trend of the industry as a whole), and competitive challenge (depending on the number and concentration of competitors). It can also help you determine if you have or can get the expertise needed to run a profitable business (comparing how profits are made to how you would run your business if you started now). If the IA outcomes do not look promising, there are thousands of other industries to try, and it is time to think about what you can offer to attract customers to your business. TABLE 7.1 Sources of Data for Industry Analysis Free Online Sources BizStats.com—Offers profit and cost information for about 100 industries dominated by small businesses. Also has balance sheets and income statements as well as a calculator to project financials from the firm's sales and legal form of organization. BizStats has a for-fee companion called Bizminer (see below). Bureau of Labor Statistics Consumer Expenditure Survey (www.bls.gov/cex/)—One of the few databases that tracks buying habits (expenditures) of American consumers (families and individuals). Useful for determining market size. Also includes income and demographic information on consumers. Note that these data are now included in the Census Business Builder reports. Census Business Builder (cbb.census.gov)—We've already mentioned this in Skill Module 7.2. To see output, look at the appendix at the end of this chapter. data.census.gov—Scroll down and click on the industry you are considering under "Industry and NAICS codes." You'll see a list of data types you can explore including tables, maps, and pages. The pages show the latest statistics available from the government. www.clustermapping.us—A free resource from Harvard and the U.S. government's Economic Development Administration. Learn more about it in Experiential Exercise 5 at the end of this chapter. Sources Likely to Be Found in a Library Standard and Poor's Industry Surveys—These give you the overall trend in narrative and statistical terms for 52 major industries. Encyclopedia of American Industries—Provides detailed rundowns on major industries. Names leaders and gives upcoming trends as well as historic ones. Has two volumes, one for manufacturing and one for all other industries. (Also available online as the Gale Business Insights database.) Industry Norms and Key Business Ratios and RMA Annual Statement Studies—Each of these two competing products offers a rundown of the financials for hundreds of industries, along with the key ratios (see Chapter 15 for more detail on this). Market Share Reporter—Compiles market share data on products and services for public and private (i.e., small business) companies. For-Fee (Not Free) Online Sources (many school and local libraries already have access to these databases, so

check with yours) Bizminer.com—Bizminer covers over 15,000 industries including those most dominated by small business. For example, Bizminer has reports on more than a dozen types of restaurants and has similar coverage in other industries. In addition to financials, Bizminer offers market reports for thousands of industries in hundreds of U.S. communities. Gale Business Insights—Database with an extensive listing of industries (along with industry reports), companies, and news articles linked to specific firms. Listings of small businesses give names, locations, and in some cases sales figures. Competing databases with similar types of data (but in less organized form) include Lexis and ABI/Inform. Your library may have the hard copy version of this, the Encyclopedia of American Industries. IBISWorld—Covers 700 industries in the United States and provides industry strategies, along with economic and big-picture market projections. Mintel Reports—Covers United States and Europe with an emphasis on marketing research (versus industry analysis), such as giving consumer segments and purchasing habits in covered lines of business.



Strategy Selection: The Fourth Step in Strategic Planning 7-5 Explain the major strategies of business—differentiation, cost, and focus. There are three classic strategies for businesses of all types—differentiation, cost, and focus.19 Because they are so widely

applicable, they are called generic strategies. Differentiation strategies are aimed at mass markets—situations in which nearly everyone might buy your product or service. With this strategy, you try to show how your firm offers some combination of value benefits that is different from and better for the customer than those offered by competitors. Relatively few small businesses use differentiation strategies because it is hard for small businesses to have the resources to pursue mass markets. It happens most often when a small business offers a mass-market product or service locally. For example, a gas station offers a mass-market service, but its sales are naturally limited to a particular location. This business reality sets boundaries for where the firm competes, which help target advertising and pricing. Cost strategies are also aimed at mass markets. In a cost strategy, you try to show how your firm offers a combination of cost benefits that appeal to the customer. Small businesses in a variety of industries make use of mass-market cost strategies. Typically, this comes when the small business can pursue a very low cost operation. For example, one gravel supplier in Memphis, Tennessee, was the undisputed low-cost provider. His secret? A farmer by trade, he discovered gravel under one of his farm fields. He sold directly to the users, cutting out intermediaries and their costs. Focus strategies target a portion of the market, called a segment or niche. Instead of selling mass-market gravel for everyone, a focus strategy might target people seeking decorative gravel. For example, Scott Stone Company in Mebane, North Carolina, offers 20 different types of gravel that differ in color, stone size, and durability. By ensuring the quality and consistency of the gravel and knowing which types work best in specialized settings, such as oriental gardens or waterscapes, Scott Stone offers customers products and expertise not readily available elsewhere. Small businesses often use a combination strategy that can use aspects of differentiation or cost approaches that are reformulated for the niche market. You identify a focus or combination strategy by figuring out what benefits your market most wants. This can be done by asking customers outright, through surveys, or by looking at what is working among your competitors locally or in more advanced markets. Often you will find that your market seems to want several benefits at once. Building from this, strategy researchers such as Dean Shepherd and Mark Shanley as well as Michael Porter have identified classic benefit combinations that they call supra-strategies20 which are given in Exhibit 7.2. All are designed to work where there are many small businesses in an industry, along with a few larger firms. EXHIBIT 7.211 Small Business Supra-Strategies Craftsmanship: Specialized product, localized business operations, high levels of craftsmanship (versus competitors with scale economies). Customization: Short delivery times, custom features, short production runs, high quality (versus products that are mass produced). Supersupport: Extensive, intensive, and personalized after-sales service. Serving the underserved/interstices: Targeting markets forgotten by larger competitors. Elite: High-quality products with high prices, backed up by high expenditures for advertising

and R&D (versus mass-market products). Single-mindedness: Developing and demonstrating exceptional expertise in one product or service (versus competitors with broad approaches or product lines). Comprehensiveness: Offering one-stop shopping with complete inventory, immediate delivery, knowledgeable staff, and the major supporting services in one location. Formula facilities: Use a prepackaged business (like a McDonald's franchise or a preconfigured restaurant package from Sysco) to offer a better or more consistent product or service. Bare bones or no-frills: Keep prices super low by cutting back on décor (think warehouse stores), hours (think weekends only or flea markets), or employees. Cutting out the intermediary: Today farmers at their roadside stands and bands selling their own tracks online are able to sell at lower prices and still make more money by eliminating wholesalers' and retailers' markups.21 Tightly manage decentralization: Once you know how to efficiently run one type of business, it often becomes easier to open related firms. This is especially common for Internet businesses. Tightly managed decentralization can also work in more conventional firms too. The Menlove family mastered the auto business in southern Utah with a Dodge dealership that started in 1962. Family members opened a Toyota dealership in 1986, and a Mitsubishi–Subaru dealership in 2002. Each one was highly rated in customer satisfaction and sales volume. Part of the underlying reason for their success was their ability to transplant the skills they mastered in the first dealership. The quality of the operations and customer reactions were fundamental to the selling of the chain of dealerships in 2011.22 Page 211 Armed with these strategic choices, it is possible to profile the most typical modes for new businesses. Table 7.2 shows four types of start-ups and outlines how they align with the scope, generic strategies, imitation–innovation choice, and supra-strategies discussed earlier. TABLE 7.2 Typical Modes for Small Business Start-UpsTable Summary: Table divided into five columns compares start-ups based on their planning, goals, and market scope. Column 1 notes the list of business sectors. Columns 2 to 3 are marked as: open source sup asterisk and web based. Classic Imitator Internet Imitator Classic Cost Leader Classic Innovator Market Scope Niche Niche or mass Niche Niche Optimal Strategy Focus (differentiation) Focus (differentiation or cost) Focus (cost) Focus (differentiation) Imitation–Innovation Imitation Imitation Imitation Innovation Organizational Goal Match competition with one element different Match competition but be online Lowest price Master technology Supra-Strategy Craftsmanship; formula facilities Comprehensiveness (inventory); cutting out the intermediary; serving the underserved Bare bones; cutting out the intermediary; single-mindedness (cost) Elite; single-mindedness; supersupport Attractiveness Moderate to low Moderate to low Low Moderate to high Life Cycle Stage All All All except introduction Introduction, growth, or retrenchment It might help to think about how Table 7.2 applies in a particular industry. Let's look at Italian restaurants (part of NAICS 72211). There are probably several Italian restaurants where you live or go to school.

If you think about it, the vast majority offer the same sorts of dishes. They are fundamentally imitators of one another. Most of them differentiate themselves based on one or two menu items (one has cannoli, another has Italian wedding cake, etc.). That is their craftsmanship. Another may differentiate on the basis of atmosphere (i.e., best place to take a date) or location (close enough to walk to from class). They probably have nearly identical kitchens and bought most of their furniture and serving ware from the same restaurant supply store. That is their formula facility. Together, these restaurants are classic imitators. There is also probably another Italian restaurant known as the place to go toward the end of the month, when money is tight. The menu has the same sort of items, but the quality of the ingredients may be less (e.g., more like institutional food) or the décor may be nothing to look at, but the prices are always low. That restaurant is your classic cost leader. Last, think about the Italian restaurant that has the most different menu. It may be hard to find a marinara sauce on the menu. The décor may look more at home in a Scandinavian restaurant, and the menu may change with the season and what looks good locally. Here you have a firm pursuing an innovator strategy. It may appeal only to a few individuals. Because the food varies so much, they are more willing to tweak recipes to fit the customer's wishes. Some of the equipment in the kitchen or the seating area will probably be different from what the other local Italian restaurants have. That too is part of the innovator strategy. Innovators either grow enough to become mainstream, or they die out fairly quickly. Page 212 Innovators may also come along as drivers of the retrenchment of an industry. The growth of northern Italian cuisine (think Italian without red sauce) revitalized the Italian restaurant industry by expanding the menu and reenergizing bored customers to come back and learn about new dishes. The growth of the wine industry in the United States also led to a revitalization of Italian eating. The Internet version of the Italian restaurant is the online ordering system pioneered by big chains like Pizza Hut, but is now available for small restaurants everywhere. The food is the same. The prices are the same, but the difference is the ability to order online. For some other businesses, the online inventory may be larger than the one at the store, because the entrepreneur can fill an online order through their supplier, without adding to their own inventory. So it is possible to be more comprehensive online than in the store. Most of the time your preferences for a particular type of business or industry and the industry analysis you perform are closely tied together. But there are times when opportunities pop up unexpectedly, and suddenly you can find yourself trying to decide if the opportunity is the right business and industry for you. This ability to quickly pivot is one of the classic strengths of the entrepreneur. Retired entrepreneurship professor Karl Vesper23 named these opportunities entry wedges, and he identified seven that come up again and again: Supply shortages: Supply shortages occur when a new product is in demand. The target audience is leading-edge buyers who are willing to pay a premium to be the first to have the

product. This is a short-term market and one that changes rapidly. The key benefits are delivery, shopping ease, and style. Unutilized resources: Unutilized resources can be a physical resource like gravel in a farm field or even entire inner cities (see the following Small Business Insight). It can also be a human resource. Tax Resources, Inc. was started in 1988 by people experienced in dealing with the IRS in order to advise taxpayers on legal strategies to minimize their taxes or handle audits.24 The key benefits are lower costs, scale savings, or organizational practices. Customer contracting: Customer contracting occurs when a customer, most often a business, is willing to sign a contract with a small business to ensure a product or service. Because big businesses frequently downsize, they have ongoing needs to outsource work. Former employees are often the preferred source for independent subcontractors. The key benefits are quality, delivery, technology, shopping ease, brand/reputation, and assurance. Style and personalization are often factors too. Page 213 Second sourcing: Second sourcing seeks out customers who are already being serviced by another firm. The strategy is to offer customers a second place to obtain goods or services. Often the advantage the small business offers is being locally based. Second sourcing provides the customer with greater certainty of supplies or services, and at its best provides a competitive pressure to keep both suppliers providing the best service and prices. Like customer contracting, the key benefits are quality, delivery, technology, shopping ease, brand/reputation, and assurance. Market relinquishment: Market relinquishment occurs when business firms leave a market. As the need for the major airlines to fill every seat on every flight has grown, those airlines have pulled out of markets where they can't fill a full-sized plane. For small commuter airlines, these market relinquishments have been opportunities to expand and provide ongoing service to smaller airports with their smaller planes. Key benefits are place, shopping ease, quality, delivery, and service. Favored purchasing: Favored purchasing occurs because government agencies, government-sponsored commercial contracts, and many big businesses have policies that provide for set-asides or quotas for purchases from small businesses, minority businesses, and disadvantaged businesses (see the Small Business Insight below). You can find out more at the SBA's online government contracting site (www.sba.gov/contracting). Key benefits are quality, delivery, service, assurance, place, and belonging. Government rules: Rule changes by the government can help small firms compete. For example, when the Environmental Protection Agency let small construction firms out of some of the water pollution treatment requirements that large firms must face, it gave the small businesses a savings of $1.5 billion, which made them more competitive. The Regulatory Flexibility Act of 1980 drives many of these rule changes in government.25 Key benefits here are technology, service, personalization, lower costs, and organizational practices. The industry analysis helps confirm that you have chosen the right industry, and also where your competitors are and the current industry stage. That and your own

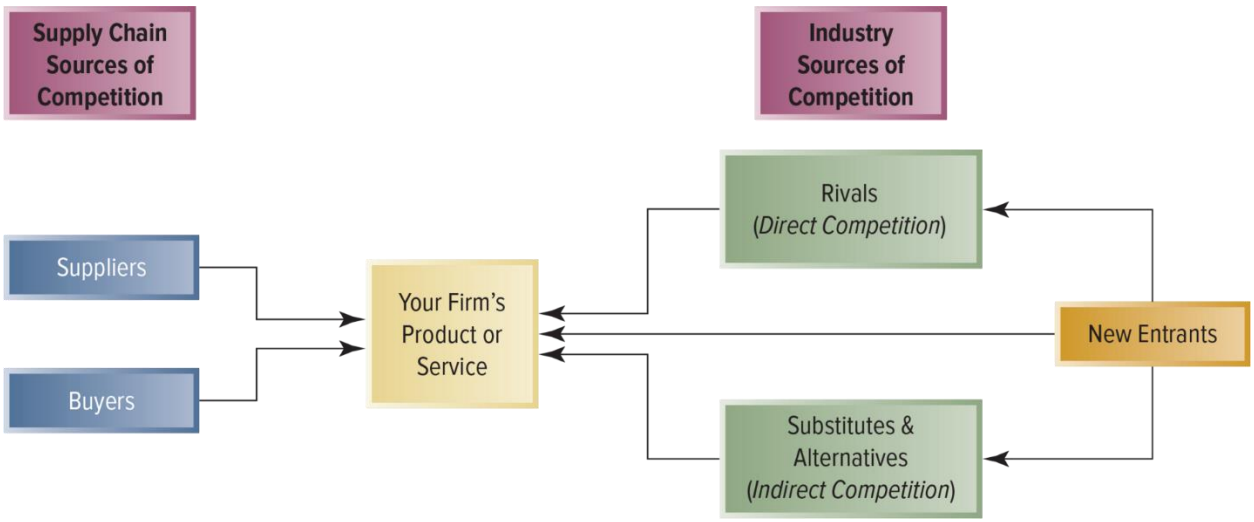
decisions earlier about the scope of your business and whether you plan to pursue an imitative or innovative strategy give you the fundamentals for deciding the type of small business strategy that makes the most sense for your start-up. With that information in mind, it is time to think about how you will set up your firm to implement the strategy. SMALL BUSINESS INSIGHT Initiative for a Competitive Inner City (ICIC) Joe Vazquez's undergrad degree was in accounting, and he spent years as an auditor in the construction industry.26 He burned out on 80-hour weeks, and joined his father-in-law's construction firm, but in 2008, during the recession, he decided to start his own construction company, Vazquez Commercial Construction (VCC). He leveraged government contracting and certification opportunities he learned about from Missouri's Procurement Technical Assistance Centers (most states have similar organizations) including HUBZone, SBA 8(a), Minority Business Enterprise, Disadvantaged Business Enterprise, and Small Disadvantaged Business certifications—all of which give his firm increased opportunities to land government contracts. This meant that he went from $38,000 in 2008, to 25 federal projects worth $1.3 million in 2013, to $30 million and a spot as the number six fastest-growing minority business in America in Fortune magazine's ICIC Inner City 100 list for 2018.

Post Start-Up Tactics 7-6 Determine how to sustain competitive advantage through attracting customers and discouraging competition. The goal of strategy after the start-up stage is to maximize profits (or any other reward you specify as meeting your criteria for success) and protect your business from the competition. To secure success, there is a step you need to take past picking and implementing the right strategy. It is the step of securing competitive advantage. Competitive advantage is the particular way you implement your customer benefits that keeps your firm ahead of other firms in your industry or market. Competitive advantage is your firm's edge in meeting and beating the competition. It can be harder than it looks. Why? In part because most small businesses face a lot more forms of competition than they initially realize. Strategy guru Michael Porter27 identifies five different sources of competition for any business (see Figure 7.5). One set of sources come from the supply chain you face, literally where you get your raw materials and where your finished goods or services go, namely, your customers. The other set of sources come from within your industry, from existing competitors (rivals), other start-ups like your business, and the alternatives and substitutes your customers have been using instead of your product so far. FIGURE 7.5Porter's Five-Forces Model of Industry Competition Source: Adapted by the authors from Competitive Strategy: Techniques for Analyzing Industries and Competitors by Michael E. Porter. (New York: Free Press, 1988). Imagine you plan to start a web development firm in Pocatello, Idaho. The

first place to look at for competitive threats are existing firms in your industry. Pretty much all the other web developers in the Pocatello vicinity pose the threat of rivalry. Since web development is even being taught in high schools, another potential competitive threat will be potential or new entrants, other web development firms that open after yours. If you think about why people come to a web developer, you realize that there is a very broad threat of substitutes with which you compete. Prepackaged website templates are offered by many hosting services, companies like Wix.com, GoDaddy.com and Amazon.com sell whole e-commerce sites already laid out using templates, and people can buy their own templates from companies on the Internet like websitetemplates.com or even freewebsitetemplates.com. But customers can substitute whole other approaches, so you compete with free blogs from Blogger.com and WordPress.com, and the growing possibility of running a company site from Facebook.com and other social networking sites. Part of what will make your web development firm special might be the advanced services you offer. Perhaps you licensed one of the large archives of photos to include in your customers' websites. If your supplier of photos raises prices, your profits could take a hit. Similarly, if your customers have done their homework and checked out what other local developers offer and are charging. These five—rivals, entrants, substitutes, suppliers, and customers—are aspects of your industry that can change your profitability and give an edge to any of the many types of competitors you face. The major ways you cope with these competitive pressures is by undertaking some combination of strategic actions and tactical actions. Exhibit 7.3 shows some of the best-known examples of each type. Generally strategic actions require more time, money, and specialized expertise (which collectively are known as your firm's resources) than most tactical actions. That means a tactical response is most often your first response, with strategic actions building behind the scenes. EXHIBIT 7.3Strategic and Tactical Competitive Actions Table Summary: Table divided into three columns shows marketing tactics for selling product with corresponding examples. Column 1 notes the strategic and tactical actions. Columns 2 to 3 are marked as: specific actions and examples. Specific Actions Examples Strategic actions Entering new markets Make geographic expansions Go global directly, by agents or by joint ventures Expand into neglected markets Target rivals' markets Target new demographics Expand Internet markets New product introductions Imitate rivals' products Address gaps in quality Leverage new technologies Leverage brand name with related products Protect innovation with patents or trademarks Offer stripped-down versions as loss leaders Introduce older products in less sophisticated markets Changing production capacity Create overcapacity Option others' capacity to keep it out of competitors' hands Tie up raw materials sources Tie up preferred suppliers and distributors Stimulate demand by limiting capacity Seek production certifications (e.g., ISO 9000) Mergers/alliances Acquire/partner with competitors to reduce competition Flank your primary competitor by connecting with their

competitors in other industries Tie up key supplies through alliances Obtain new technology/intellectual property Facilitate new market entry Seek protective legislation Seek favorable standards Tactical actions Price cutting (or increases) Maintain low price dominance Offer discounts and rebates Offer incentives (e.g., frequent flyer miles) Enhance offering to move upscale Product/service enhancements Address gaps in service Expand warranties Make incremental product improvements Co-package your product with related ones Bundle multiple products together Add online components or expansions for the product Increased marketing efforts Use guerrilla marketing Conduct selective attacks Change product packaging Use new marketing channels Promote stories of customer and employees Offer altruistic benefits—going greener, charity contributions, etc. Tie customers in via social media New distribution channels Access suppliers directly Access customers directly Develop multiple points of contact with customers Expand Internet presence Sources: Adapted from G. Dess, A. Eisner, G. McNamara, Strategic Management: Text and Cases, 10th. ed. (McGraw-Hill, 2019), Exhibit 8.2, p. 300; M. J. Chen and D. C. Hambrick, "Speed, Stealth, and Selective Attack: How Small Firms Differ from Large Firms in Competitive Behavior," Academy of Management Journal 38, no. 2 (April 1, 1995), pp. 453–482; M. Davies, "Sales Promotions as a Competitive Strategy," Management Decision 30, no. 7 (December 31, 1992), www.emeraldinsight.com/journals.htm?articleid=864603&show=abstract (accessed June 20, 2012); W. J. Ferrier, K. G. Smith, and C. M. Grimm, "The Role of Competitive Action in Market Share Erosion and Industry Dethronement: A Study of Industry Leaders and Challengers," Academy of Management Journal 42, no. 4 (1999), pp. 372–388; R. A. Garda, "Use Tactical Pricing to Uncover Hidden Profits," Journal of Business Strategy 12, no. 5 (December 31, 1991), pp. 17–23. Page 216 From all this, you can see that strategy represents the way by which an entrepreneur plots a path to success. For strategy to work, it needs to draw on most of the elements discussed in the chapter. When Joe and Zoë were putting together the idea for Greetabl.com, they were trying to strategize the right way. You know by now that they did an industry analysis that led them to see that Greetabl had a chance in the greeting card market at the small firm side of it where distinctiveness and customization were important. So when it came to imitative–innovative, they went more innovative—when they thought about Porter's strategy types they went with focus, with more of a differentiation approach. While there wasn't an entry wedge to leverage, their supra-strategy was customization (of messages and graphics and later adding pictures) and a single-minded approach. This positioned them as using the typical mode of a classic imitator. And they continued to refine their strategy based on how their product did, what customers did and said, and how their competitors and the rest of their industry changed. Long term or short, every small business has a strategy, and successful small businesses have strategies that fit their industry, market, and resources. Strategy is one of those areas in which you can take charge and think through the options

available to you and your firm. For all the ideas on which strategy touches, in the end there are some straightforward ways to help you decide on strategies, such as industry analyses and perceptual maps. These analysis techniques can help you narrow down your choices to a model of strategy that can help you succeed. For the vast majority of small businesses, the most powerful technique is to pursue an imitative strategy. By following the industry standard practices, with only one or two innovations to differentiate your firm from others, you can gain many of the benefits of established businesses and industries and still benefit from the power of innovation along smaller lines, which can make a real difference for your customers. For many owners, strategy is the grand game of business, but it is a game in which winning can make a major difference in the success of your firm and your life.



CHAPTER SUMMARY 7-1 Describe the decisions needed to establish a foundation for strategic planning. Strategy is the idea and actions that explain how the firm will make its profit. Strategic planning for small business is a four-step process. Consider the rewards you seek from your business when crafting and evaluating strategies. Choose whether your firm will focus on a mass or niche scale and a scope ranging from local to global. 7-2 Identify the forms of imitative and innovative businesses. Imitation is the classic strategy of small businesses. An imitative approach lets you build on existing products, services, and markets. An innovative approach lets you build a business in your own unique way. 7-3 Articulate the benefits that win over customers. Industry focuses on competing firms. Marketing focuses on your customers. Benefits are desirable characteristics of a product or service. Benefits can target value, such as quality or style, as well as cost. Situations and benefits can help clarify entry wedges that can offer exceptional profits. 7-4 Assess

how industry changes affect strategy. A successful start-up depends on knowing the industry's stage. Access to support depends on the industry's performance trend. An industry analysis combines trend, stage, and profit data to assess the firm's chances in a particular industry at a particular time. Page 217 7-5 Explain the major strategies of business—differentiation, cost, and focus. There are three generic business strategies—differentiation, cost, and focus. Most small businesses use a focus strategy, targeting a niche by combining cost or differentiation approaches. Particular combinations of benefits are called supra-strategies. 7-6 Determine how to sustain competitive advantage through attracting customers and discouraging competition. Competitive advantage is your firm's edge in meeting and beating the competition. Operating businesses deal with competition through a combination of strategic actions and tactical actions.

KEY TERMS goal magic number industry competitor imitative strategy innovative strategy degree of similarity parallel competition incremental innovation pure innovation blue ocean strategy market scale scope mass market niche market marketing value proposition competitive advantage distinctive competence map distinctive competence core competency industry dynamics introduction stage growth stage boom shake-out maturity stage decline stage retrenchment industry analysis (IA) gross profit net profit profit before taxes generic strategies differentiation strategy cost strategy focus strategy entry wedge supply chain strategic actions tactical actions

DISCUSSION QUESTIONS The book asserts that "All strategy starts with the owner." Many of the gurus of strategy say strategy starts with the environment outside the firm. Which do you think is true? Be ready to back it up. A lot of famous entrepreneurs brag how innovative their product is, when it is fundamentally like the competition, although better in one way or another. How do you classify such entrepreneurs in terms of the imitation–innovation balance? Imagine you have developed a new two-way GPS system for trucks and their dispatchers. Trucking companies are all over the country. So are you looking at a mass market? Why or why not? What are the differences between imitative and innovative strategies? Which is more likely to be something a small business can pursue? Page 218 Pick a small business with which all of the class is familiar. Discuss what are the customer benefits that business is trying to offer. Could they do a better job if they chose some other benefit? Small businesses that pursue a cost (or cost focus) strategy often do so by using a location in a very low-rent district, with the store itself made up of used furniture, no decorations, and a no-frills atmosphere. What is the problem with such an approach? Can you think of other ways to achieve low cost without encountering similar problems? What

is the competitive advantage of a business, and how does it lead to success? In the life cycle of an industry, how can you tell when it has left the introductory stage and entered the growth stage?

EXPERIENTIAL EXERCISES Get the industry statistics you need from the government. Go to Census Business Builder page (cbb.census.gov) and look up "Lawn and Garden Equipment and Supplies Stores" (NAICS 4442). Our goal is to get the info on stores in Vermont. So type "Vermont" in the "State, County, City/Town or ZIP Code" box on the right and then click "Create Report" to see the statewide numbers. How many stores with employees were there statewide at the last count? Look at local hamburger restaurants. How do they pursue imitative strategies, and where do they offer their innovations? Pick five online businesses in the same industry. From their websites, see if you can identify what they think is their competitive advantage. Do you agree with their assessment? Why or why not? Think of the life cycle of an industry. Give examples of industries that are at the different stages, and be ready to defend your classification. You can get an overview of a lot of US industries at www.clustermapping.us. For example, imagine you're interested in selling something online. If you put "commerce" into the search box at the top right corner of the site, you can choose from several forms of "Distribution and Electronic Commerce" from the drop-down box that appears. Pick the item for "Electronic and Catalog Shopping." You can pick an economic region from the map. For this example, pick Omaha, NE, and then click on "Go to Region Dashboard" and scroll down until you find the link to "Dive into This Region's Clusters." On the resulting page you will find employment in different industries. Look for "Distribution and Electronic Commerce" in the bar chart of "Private, Non-Agricultural Employment." Click on the bar for "Distribution and Electronic Commerce" and you will see local employment in that industry. You can get employment figures for earlier years by changing the year on the time bar above the bar chart. You can also find out wages for people in the industry by clicking on "Wages" above the time bar (there are also options to learn about job creation and other characteristics of the different industries in the Omaha region). You can try this site with just about any industry that interests you, for example restaurants (which come up as "Hospitality Establishments").

MINI-CASE ANALYZING TO FIND A PATH FORWARD Ronnie Scales had his heart set on an Internet consulting business specializing in search engine optimization (SEO), which involves designing websites with characteristics that help them appear high up in search result displays. Being on the first screen that people see can be worth a lot to a company selling on the web. Ronnie had a strong background, with a bachelor's degree in

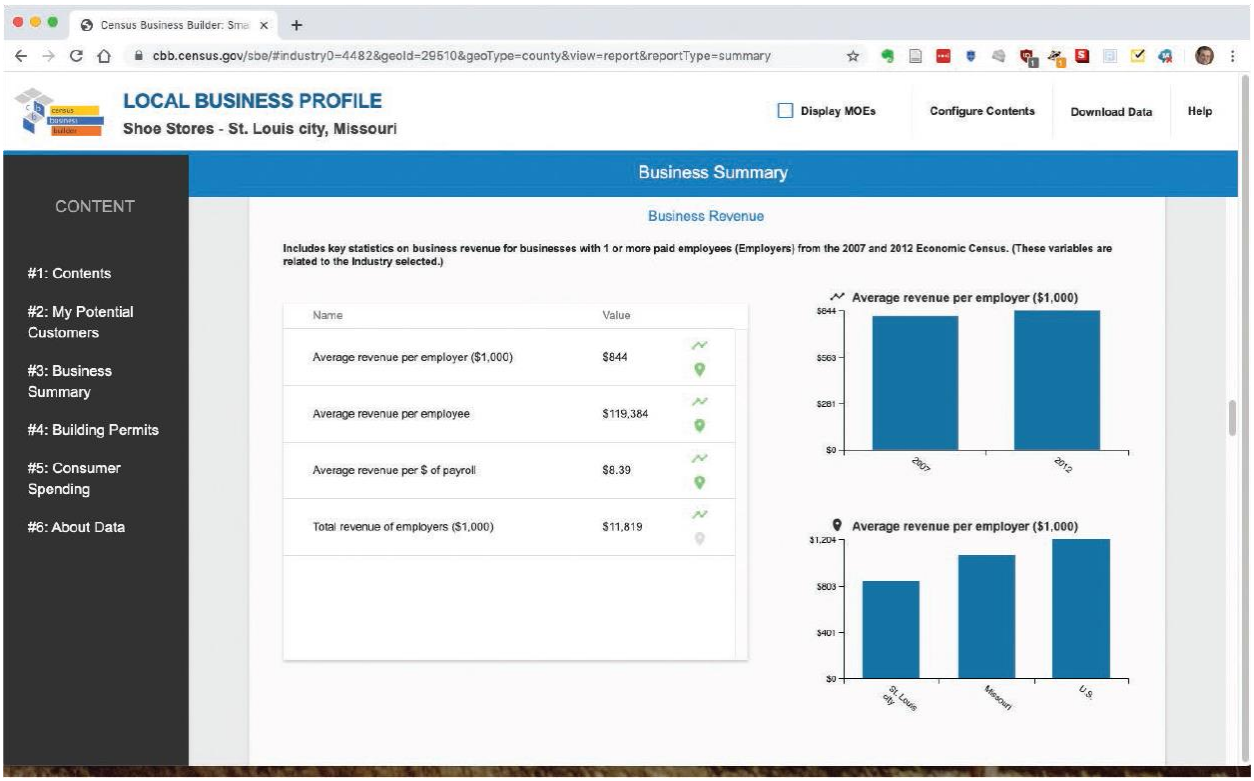
management information systems (MIS) with a marketing minor from a university in his hometown of Dallas. He had worked in the university's lab, and had done web design and SEO for campus organizations, local nonprofits, and a few students with online businesses. When he tried a distinctive competence map with the features and benefits he and his competitors offered, such as expertise, his firm did not do well. After all, he was new to the industry so his experience was not as great as a lot of his competitors. Also, since SEO can be done remotely, he was competing with firms in India and eastern Europe who charged less than he did. He felt there had to be some advantages of being physically near the customers, but he was not sure how to leverage it. Page 219 What sort of tactics could he use to better position his SEO business for success in such a crowded industry? CASE DISCUSSION QUESTIONS Considering the Porter model, from what sectors would Ronnie's competitors be coming? What kinds of threats do they pose to his business? Pick two tactics from the list in Exhibit 7.3 and explain how they could be applied to Ronnie's business. Explain why you think those tactics would work. Industry experts say that SEO is an industry on the rise. What are the implications for Ronnie as he plans to run his business?

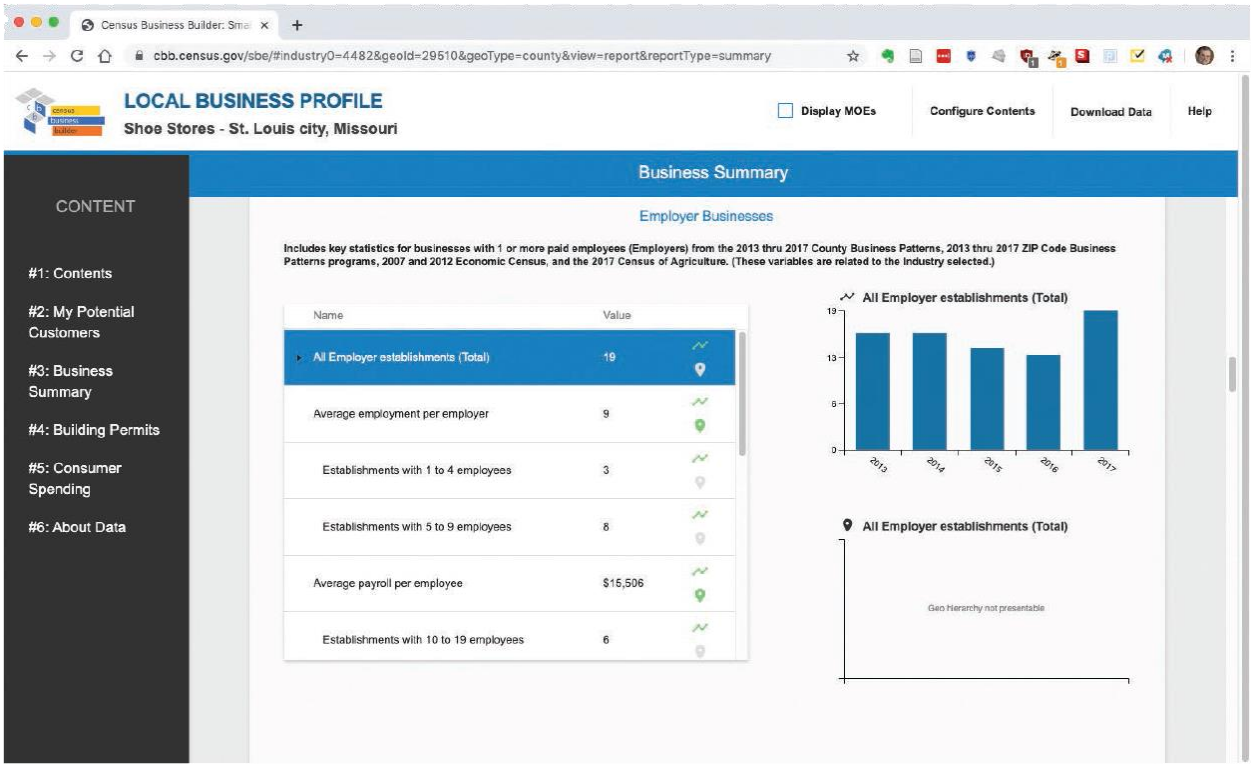
APPENDIX: Five Steps to an Industry Analysis Retail Shoe Store HOW-TO'S Step 1: The Right Data for Your Industry The first order of business is to find the NAICS code and Census Business Builder for your industry of interest. This is done by going to the website cbb.census.gov. Plug in your keyword, in this case "shoe store," and you will see shoe stores in general are NAICS code 4482. Usually the longer the number, the narrower the slice of an industry, and the fewer the number of firms, but these may be a closer match to your goal. The numbers and graphics you will see when you do this might look different from those in this Appendix. This is most likely to be because the government is using newer data. Step 2: Industry Size The Business Builder tells us there were 24,693 establishments (aka firms) in the United States in 2017. Type "St. Louis" in the location box and choose "St. Louis city" and then click "Create Report." In the report, scroll down to the "Business Summary" section. You'll see there were 19 employer establishments in 2017. Double-click on the "Employer establishments" box (which has a blue background in the graphic below) and the graphic to the right will change to reflect the number of employer establishments from 2013 to 2017. If you click on a column in the graph, it will show you the number for that year, for example, 16 stores in 2013. That change from 16 to 19 stores from 2013 to 2017 gives us one measure of industry size trend. You can repeat this process with any of the measures. cbb.census.gov Page 221 If you scroll down the page in the Census Business Builder, you will see a section titled "Business Revenue," another way to say "sales." The default configuration shows the "Average revenue per employer" for 2007

and 2012 (the latest two Economic Census results available at that time). Again, clicking on the graphs gives you the actual numbers, $814,000 in 2007 and $844,000 in 2012. These numbers give you another measure of industry size and its trend. The graph in the lower right even gives you the 2012 comparable numbers for Missouri and the United States as a whole. cbb.census.gov Step 3: Profitability Step 3 starts with going to the BizStats.com website and clicking "Sole Proprietor" from the top line menu. On the list of industries, select "Retail." In this case, a retail shoe store would fall under the category "Clothing-Accessories." Click on the link and you will be taken to the report. The BizStat report in March 2019 showed numbers from 2016 of gross profit 51.62 percent, total expenses 46.61 percent, leaving a net profit of 5.01 percent. It then also gives you a line "Direct Labor and NP" (net profit), which reflects that a sole proprietor might be paying themselves a salary in addition to the profits made. That number is 14.62 percent. Remember that these BizStat numbers give you an average based on a variety of different types of clothing stores. So it still makes sense to get specific numbers for shoe stores (including corporations, partnerships, and sole proprietorships), and you should still get the BizMiner or Risk Management Association data. Go to the library to find information about the profitability of the retail shoe industry next. Using the RMA's Annual Statement Studies: Financial Ratio Benchmarks, the following information was gathered for the smallest stores, with zero to $500,000 in sales in 2018–2019, in NAICS code 448210. Gross profit 42.9 percent Operating expenses 41.2 percent Operating profit 1.7 percent All other expenses 1.1 percent Profit before taxes 0.7 percent Note that the RMA numbers are more specific to the shoe store segment than the BizStats.com numbers; also the numbers are more pessimistic. The rule of thumb in business is to use the most conservative or most pessimistic figures. In this case, the most conservative figures come from RMA, and are specific to your industry. From this you would conclude that the profit picture for the shoe store industry is potentially problematic. When looking at the RMA data, look at the financials for the larger shoe stores. You'll quickly see that the largest stores ($10–$50 million in sales) are more profitable. Note that the BizStats numbers suggest there might be some other type of clothing store that is posting superior profits, and looking for that type of business might make sense. Page 222 Step 4: Ways to Make Profits Information about making profits can be found by looking at trade articles and information or doing actual interviews. The following information came from two sources: One source is a trade site, National Shoe Retail Association (to find its material, Google "profitability site: nsra.org"—by the way, this technique can work for all sorts of organizations whose website address you know), and the other is from the home business site www.PowerHomeBiz.com. The answers to four key questions on profitability are as follows: First is the question, What can be done to generate more sales? Excellent service. Courteous and well-trained staff. Diversity in product selection. Competitive pricing. Functional store design. Location,

location, location (more heavily populated cities have greater demands for shoes). Second is a judgment of whether it is possible to charge a premium for a product or service. Depends on the market that you are catering to. If it is high end, then your target customer has the means to spend more money on more expensive (brand-name) shoes. Also, if the store is located where families have higher discretionary income, the demand for brand-name shoes will be higher. Third is how to keep the cost of goods or services below the industry's average. Put adequate stock control in place to reduce inventory costs and increase stock turns. Loss prevention is critical in any retail establishment, as theft and shrinkage represent lost dollars for the retailer. Have systematized procedures for doing physical counts of your inventory as well as clear policies on employee theft. It is also important to choose styles that are hot to the consumer to avoid inventory costs. Another cost-saving tactic is to use "in store" completion dates on all orders (i.e. when you require the order to be on your premises). Start negotiating on everything received past completion date. Fourth is to look at ways to keep operating expenses below industry averages. Always check your freight expenses against the freight charge on the packing slip. It is usually different. Charge the difference back to the vendor. Join forces with other same brand concept stores for savings on your direct mail advertising. In direct mail, the higher the quantity printed, the lower the cost per unit. There are additional savings to be realized in the cost of mailing if all pieces are sent from the same location. Savings can be substantial. Use co-op dollars to reduce costs. Use some of your co-op dollars to co-brand with suppliers on things like business cards, shopping bags, and so on. If you're doing a profit and loss statement monthly, consider doing it quarterly. Chances are you are simply putting it in a file anyway and are not adjusting the operating budget that often. This can trim the accounting bill considerably. Negotiating better terms and rates with your bankers and other service providers can really save on fees. For example, go to other banks to get competitive rates and then renegotiate with your bank or change banks. For a bank, this applies to bank transaction fees as well as interest and credit terms. Bid or get multiple estimates for things like construction/repair projects, insurance, contract services (i.e., refuse removal), and so forth. Step 5: Competitor Concentration The last step is using a directory provider to find out how many competitors there are in an area. Using the Census Business Builder mentioned above, there were 130 stores in St. Louis County in 2016. Alternatively you can use YP.com's online yellow pages directory or Google maps to find shoe stores. YP.com reported there are 208 retail shoe establishments in the St. Louis metropolitan area (which is larger than just St. Louis County alone). ANALYSIS Overview It seems as though the retail shoe industry is growing slowly. From 2013 to 2017 the number of stores in the industry increased by 19 percent. The RMA statistics suggest that small shoe stores are at a particular disadvantage in the industry, trailing the largest stores in sales and profits. We can conclude that the retail shoe industry is very competitive, and for

small start-ups, it is essential to be able to distinguish themselves in a mature market. Page 223 Profitability While the gross profit for this industry looks very good compared to other similar businesses (at 42.9 percent), operating profit and profit before taxes are low. Therefore, to be successful in this industry it is important to differentiate and focus on customer service and other approaches which add value. Also, an owner should do everything possible to cut the cost of goods sold and expenses. Taken together, these strategies might result in a profitable firm, but it will be a highly risky venture. Differentiation and Cost There are several ways to differentiate in the retail shoe business. There are many different categories for retail shoes. An owner could choose to focus on men's or women's shoes, kids' shoes, or athletic shoes or include all these categories in one store. Then within these categories, there is low end, one price and discount, mass designer, and high end. Again, the shoe business is very competitive, so it is important to choose an image and stick to this image to establish and build a reputation with customers. Once the image is established, there are six areas that must be covered to be successful and maintain a foothold in the industry. They are as follows: Excellent service—many a customer is won over by receiving great service. Courteous, honest, and well-trained staff. Diversity in product selection—offer a wide range of shoes appropriate for the surrounding environment. For example, if the location is near a beach, be sure to include plenty of sandals, thongs, and flip-flops in the inventory. Competitive pricing—be competitive with other stores in the area to maintain a loyal customer base. Functional store design so that customers may move around with ease. Location, location, location—locations in or near heavily populated cities tend to have higher sales. Incorporating these elements well, along with a differentiating image, will help an owner have strong placement and be most able to compete effectively in the industry. It would seem that with a solid business plan, a marketing edge, and great location, while a retail shoe business could be risky, it could also be viable and rewarding. SOURCES "Bright Ideas" from National Shoe Retailers Association's February 2005 Conference, www.nsra.org/brightideas.pdf. Jenny Fulbright, Starting a Shoe Retail Store, www.powerhomebiz.com/business-ideas/succeed-in-the-shoe-store-retail-business.htm (accessed April 10, 2016). Risk Management Association, "RMAU Online: Annual Statement Studies—Industry Data 448210—Shoe Stores," https://rmau-org.ezp.slu.edu/industry/detail?indCode=448210&leftnavmenuid=3 (accessed March 25, 2019). U.S. Census, Census Business Builder (NAICS 44821), https://cbb.census.gov/sbe/# (accessed March 25, 2019). Note: This industry analysis was originally written by Beatrice Emmanuel of Saint Louis University under the direction of Professor Jerome Katz. It was updated in April 2019 by Professor Katz to reflect the latest data and new Census data sources.


Census Business Builder: Sma
cbb.census.gov/sbe/#industry0=4482&geoId=29510&geoType=county&view=report&reportType=summary
LOCAL BUSINESS PROFILE
Shoe Stores - St. Louis city, Missouri
Display MOEs
Configure Contents
Download Data
Help
CONTENT
#1: Contents
#2: My Potential Customers
#3: Business Summary
#4: Building Permits
#5: Consumer Spending
#6: About Data
Business Summary
Business Revenue
Includes key statistics on business revenue for businesses with 1 or more paid employees (Employers) from the 2007 and 2012 Economic Census. (These variables are related to the industry selected.)
Name
Value
Average revenue per employer ($1,000)
$844
Average revenue per employee
$119,384
Average revenue per $ of payroll
$8.39
Total revenue of employers ($1,000)
$11,819
Average revenue per employer ($1,000)
$844
$563
$281
$0
2007
2012
Average revenue per employer ($1,000)
$1,204
$803
$401
$0
St. Louis city
Missouri
U.S.


Census Business Builder: Sma
cbb.census.gov/sbe/#industry0=4482&geoId=29510&geoType=county&view=report&reportType=summary
LOCAL BUSINESS PROFILE
Shoe Stores - St. Louis city, Missouri
Display MOEs
Configure Contents
Download Data
Help
CONTENT
#1: Contents
#2: My Potential Customers
#3: Business Summary
#4: Building Permits
#5: Consumer Spending
#6: About Data
Business Summary
Employer Businesses
Includes key statistics for businesses with 1 or more paid employees (Employers) from the 2013 thru 2017 County Business Patterns, 2013 thru 2017 ZIP Code Business Patterns programs, 2007 and 2012 Economic Census, and the 2017 Census of Agriculture. (These variables are related to the industry selected.)
Name
Value
All Employer establishments (Total)
19
Average employment per employer
9
Establishments with 1 to 4 employees
3
Establishments with 5 to 9 employees
8
Average payroll per employee
$15,506
Establishments with 10 to 19 employees
6
All Employer establishments (Total)
19
13
6
0
2013
2014
2015
2016
2017
All Employer establishments (Total)
Geo Hierarchy not presentable

CHAPTER 8 Business Plans: Seeing Audiences and Your Business Clearly Page 225 LEARNING OBJECTIVES After you complete this chapter, you will be able to: LO 8-1 Understand why and when to develop a business plan. LO 8-2 Know how to tell the business plan story. LO 8-3 Learn the major sections of the business plan. LO 8-4 Focus business plan sections to meet specific needs. LO 8-5 Identify the major risks to business plan success. LO 8-6 Master pitching your business plan to others. • Krista Clement was a lifelong basketball player who enjoyed giving back to the communities in which she lived. When she came up with an idea to track student-athlete volunteering hours, she created a business plan that described the idea and the resulting business for investors and accelerators. Krista Clement and Helper Helper Focus on Small Business: Krista Clement and Helper Helper1 For Krista Clement, basketball was life. A player since she was four, she grew up in a small town in northern Michigan and got a basketball scholarship to the University of Michigan after winning a state championship and being awarded "Miss Basketball," a recognition given to the best player in the state. She played for the University of Michigan (UM), serving as the captain of her team all four years. She loved playing, being with her team, and doing things with them, both on and off the court. Given the University of Michigan's ethos of social responsibility, the basketball team was expected to volunteer in the Ann Arbor community. For example, Krista mentored students at elementary schools and visited Mott's Children's Hospital as a volunteer. Other UM athletic teams did likewise, and it was a point of pride for student-athletes and teams to engage in the local community. Krista thought finding a way to track this volunteerism and help student-athletes engage even more might be worthwhile. Krista found out that the Athletic Department at UM was spending a lot of time tracking volunteer hours and coordinating events. Most of the tracking was imprecise, with lots of student-athlete hours not being recorded, and it was a struggle to get every student involved. Most records consisted of paper forms, sign-up sheets, and word of mouth communication. She had an idea for a better way. Her answer was Helper Helper, a subscription service for colleges and universities that would give every student-athlete at the college a smartphone app which could help them find volunteering opportunities, log-in when they arrive to volunteer, log-out when they're done, and track their volunteer hours. The web-enabled database behind Helper Helper would track not only the individual student's hours, but the hours for every student and every team, and it could generate exactly the sort of reports wanted by the NCAA, the colleges and universities, and the student-athletes themselves. The idea for Helper Helper was first developed as a feasibility study and then a business plan at Saint Louis University (SLU). The plan was used to raise money for app development, and SLU's Billiken Angel Network was one of the first groups to invest in the business based on the business plan. The plan was also the basis for Helper Helper winning Arch Grants and MergeLane accelerator applications. Informational versions of the plan were also used with

programming companies to help them understand Krista's idea and approach. Page 226 Within a few months of Helper Helper's opening, it became the go-to app for the NCAA's Team Works Competition, in which NCAA schools compete in terms of the number of volunteer hours completed by their student-athletes. Today, Helper Helper is used in over 400 schools and tracks over 1 million hours of volunteering each year! DISCUSSION QUESTIONS What were the different uses to which Krista put her business plan? What other purposes might a business plan be used for? What might you put into a plan to answer the concerns of investors? How often do you think a business plan might need to be changed? How might a feasibility study help you in creating a business plan?

Business Plan Background 8-1 Understand why and when to develop a business plan. Krista Clement had recognized a great opportunity, but turning that opportunity into a going business concern would take a lot of planning. This was especially true because while Krista knew what Helper Helper would need to do, she couldn't do the programming herself and would need to find people to do it. Also, the business would take significant funding in order to get the equipment needed to make Helper Helper work. When you are serious about your business or when a lot of money of your own or someone else's is at stake, creating a business plan is perhaps the most critical activity you can undertake. The plan is important, but what is even more important is the understanding you get from the planning process. This chapter will help you understand the thinking behind business plans and how to make and present your own. A business plan is a document designed to detail the major characteristics of a firm—its product or service, its industry, its market, its manner of operating (production, marketing, management), and its financial outcomes with an emphasis on the firm's present and future. There are two circumstances under which creating a business plan is absolutely necessary. One is when outsiders expect it. This is called external legitimacy. Creating a business plan is the acknowledged best way to build external legitimacy for your firm. When you are seeking outside support—whether financial or expert—you do a business plan to signal your professionalism and how serious you are about the business. Investors, whether they are venture capitalists, informal investors (called angels), government bureaucrats, bankers, or your two great-aunts, are going to expect to see a business plan before considering investing in your business.2 If you are pursuing a partnership or joint venture with a larger firm, a plan is the only way you are going to get the attention of outsiders. The kinds of benefits these different groups look for in a plan are given in Table 8.1. TABLE 8.1 Concerns of Different Business Plan Audiences3Table Summary: Table divided into two columns summarizes benefits of marketing plan based on various parties involved. The column headers are marked from left to right as: audience and concerns. Audience Concerns Family and friend investors Amounts and schedules for returns Stability of firm Funds use Your investment Silent partners/angel investors Growth rate Market Business team Amounts and schedules for returns Joint venture partners Fit between the firms Competitive advantage Benefits Intellectual property protection R&D Bankers Cash flow and cash cycle Asset/collateral base Long-term prospects Government agencies and institutions Compliance with regulations and laws Monitoring compliance Potential customers Service/product quality Benefits Competitive advantage Responsiveness to customers Key employees Stability of firm Growth (as applies to increased opportunities within the firm) Long-term prospects Keep in mind how business plans get used. The most common use of business plans is when you are raising money for your business. In that case, the plan becomes a way to introduce your idea, your business, yourself, and your deal to the reader. The plan is a sales

document, but also the first installment in the relationship you are hoping to build with an investor. You want your plan to be easy to read, to make clear who you are and what you are offering, both as your goods or service and as a potential investment. Remember that many potential investors, especially family and friends, may not have an extensive background in your proposed business, so the plan needs to explain how your industry (i.e., you versus your competitors) works and how your business fits into and builds its opportunities in its market (i.e., with your customers). The items for each type of audience in Table 8.1 can help remind you what parts of your plan are crucial for the intended audience. It is not uncommon to have different types of plans for different audiences. Your Aunt Mary may not be into the social media industry, but she wants to know how long you'll need her money and what she will get in return. And if she refers the plan to her accountant or attorney for an opinion, he or she will want to know these things for sure. Page 227 On the other hand, if you are presenting to accomplished angel investors individually or in groups, they will want to know a great deal about your business market potential. They want it to be big to ensure the high returns they demand for their investment. They will want to know the projected growth rate, and because they probably don't know you as well as Aunt Mary does, they will want a lot of information about you and your team, since most angel investment can be based as much on the investor's assessment of a venture team as on the product itself.4 Most angels believe a winning team can make the most of nearly any situation. Remember that while Aunt Mary and the angels will require a full business plan (as we call it in Table 8.5), other investors listed in Table 8.1 would not expect to see everything about your business. For example, you might develop a version of the plan for potential key employees or key suppliers. Neither would expect to see your financials, but both would want to know what the business is about, who is in your market, and who is on the firm's team already. So when putting your plan together, flip between Tables 8.1 and 8.5 to make sure you get the right sections (from Table 8.5) and emphasize the right issues (from Table 8.1) to get the most from your business planning effort. Page 228 As the lean business practices method has become more widespread, you will hear from followers of that approach that "the business plan is dead." They argue that all investors want to see is a pitch deck, maybe a business model canvas, and maybe a set of financials. Lean business practices started in Silicon Valley, and in that one very special place, business plans aren't needed—the investors in the Valley generally know the people they're hearing from and those people's track record or supporters. They have so many deals coming in (50 percent of all venture capital deals and 20–25 percent of all angel deals nationally come from California,5 with more than three-quarters from Silicon Valley alone) that they claim they don't have time to deal with business plans. So savvy Silicon Valley entrepreneurs give the Silicon Valley investors what they want—pitch decks. A platform for pitch decks, DocSend, commissioned a study in 2015 looking at the pitch decks that led to funding. In following up

with the Harvard professor who did the study, while few of the pitch decks that got funding had business plans, almost all were app and Internet companies in Silicon Valley. Asked what happens in Boston, the professor replied that for apps and Internet companies, a business plan is sometimes not needed, but even there, some Boston investors wanted to see a plan before investing. For all other industries, a business plan was essential to being considered.6 For the rest of the country, for the rest of funding (including bank loans, most angel investors, and most venture capitalists), and for virtually all industries with the possible exceptions of app making and Internet firms, a business plan is needed. Even for lean business practices followers, and everyone else, there is a second circumstance under which a business plan is needed: for internal understanding. This is when you want to get all the aspects of the business clear in your mind and the minds of others in the business, such as your partners or your key employees. For example, the La Terrasse restaurant in Philadelphia survived more than 30 years because it had an extensive business plan. It talked about the history and vision of the restaurant and included a detailed operational plan covering everything from table layouts to techniques for minimizing waste. For new hires, the plan offered insight and specific information on the La Terrasse way of doing things. Is a business plan absolutely essential? If you are seeking a banker, investor, or partner, yes. Generally if you need outside support to get a business going, those you are seeking support from will want to see a business plan—and you will want to make sure the plan addresses their concerns. Also, if you are trying to start or run your business in a professional or ambitious way, a business plan is vitally important. It is true that some of the most famous entrepreneurial firms—Microsoft, Dell, Facebook, Holiday Inn—started without business plans. On the other hand, there are a lot more famous firms that started from the business plan—Amazon, Apple, eBay, Red Hat, Xerox, and Federal Express to name a few.7 When Inc. magazine polled 500 owners of high-performing small businesses, 54 percent had a formal plan and 41 percent did not.8 But even many of those who did not have a written plan had a plan in their heads with occasional parts written out, which is what Mark Zuckerberg had for Facebook. Typically, the higher-performing firms in any industry (measured in profits) tend to be those who engage in formal planning.9 It is important to know that research suggests that firms without a business plan are more likely to close down than firms with plans.10 While having a business plan does not guarantee higher profits,11 it is essential to qualify to be considered by business professionals for investments, loans, or credit lines. For example, Apple and Microsoft drafted business plans when they wanted to go for venture capital funds.12 These days there are more ways to plan than ever before. You've seen in earlier chapters techniques like the IDEO screen, the business model canvas, and the feasibility study. These embody different types of planning processes, focusing on particular aspects of the proposed business, and the undeniable fact is that regardless of the exact types of

plans an entrepreneur pursues, engaging in the process of planning—even if it is only in your head13 —is what helps you avoid problems and think about the best way to move your business along. In your head or on paper, sooner or later most businesses need to do some sort of plan.

The Business Plan Story: Starting Small and Building Up14 8-2 Know how to tell the business plan story. Business plans are a type of story. In a business plan, you tell the reader about a future place—your business. Every business plan is a bit like fiction. The best fictional stories are based on what exists now, as a good business plan should be. The business plan tells a story that starts in the here and now and builds believably toward a better future. Good storytellers know that you make the story fit the audience's time. Sometimes you have only a moment to get the story of your business across; sometimes you have hours. Entrepreneurs need to have a variety of versions of their business's story available. Figure 8.1 shows the path or sequence of presentations entrepreneurs may create when planning to go into business. When you have only a moment to talk, your vision statement or a tagline you've developed is the way to go.15 When you have more time to talk about your business, longer and longer presentations are possible. These range from the two-sentence concept all the way to the 18-page business plan. The four types of business planning presentations are (1) vision statements, (2) elevator pitches, (3) executive summaries, and (4) business plans. We tell you how to do each in the following sections. FIGURE 8.1The Path to the Business Plan The Vision Statement A firm's vision statement is perhaps its most important single idea held by the owner and employees.16 The vision statement is a very simple 5- to 10-word sentence or, better yet, a tagline that expresses the fundamental idea or goal of the firm. As strategy professors Greg Dess and Tom Lumpkin suggest, a vision statement is supposed to be inspiring, overarching, and long term.17 When Bill Gates and Paul Allen started Microsoft as teenagers, their vision was "a computer on every desk—running Microsoft software."18 At the time, personal computers were being constructed by hobbyists and even lacked keyboards! So you can easily see how visionary their vision statement was. Taglines or slogans or what Guy Kawasaki calls a mantra are a good way to present vision statements because a good tagline or mantra is brief and memorable. The tagline can also serve as the company's vision statement.19 Some examples of good taglines encompassing the firm's vision statement are: Book Passage (Corte Madera, California): The Bay Area's Liveliest Bookstore. Crum Electric Supply (Casper, Wyoming): Plug into Quality—People, Products, Service. Progressive Insulation & Windows (Chatsworth, California): Total Living Comfort. Page 230 Related to the vision statement is a mission statement, which is typically longer (20–50 words) and often adds the firm's competitive advantage, which we discussed in Chapter 7. However, mission statements fell out of favor as they became too much like one

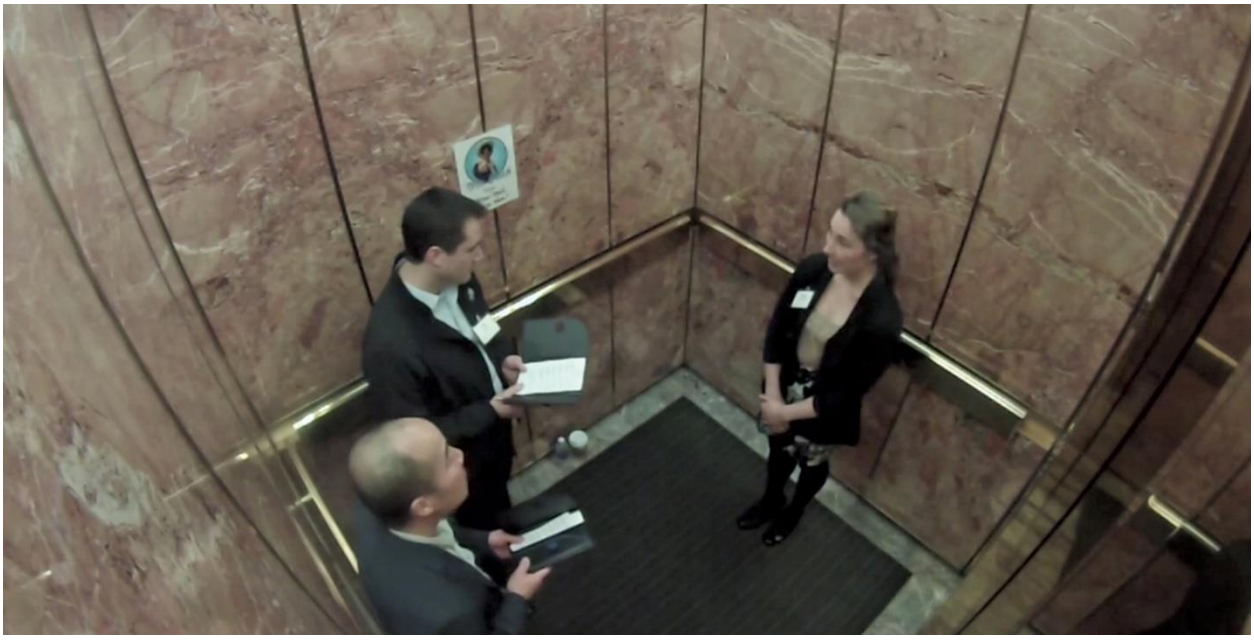
another and too full of business jargon. Poking fun at these, sites like https://lotta.se/mission-statement-generator/ offer randomly generated mission statements that do not sound unreasonable. As a result, many small businesses drop the mission statement, moving from a vision to an elevator pitch. The Elevator Pitch An elevator pitch is an action-oriented description of your business that is somewhat longer than a vision statement or tagline. It is designed to open the door to a more in-depth dialogue. Even when it doesn't lead to any sales at that moment, this information about your business should be memorable enough so that the listener can tell others about your business. The idea of the elevator pitch is that you are alone with a prospective customer or investor for the length of an elevator ride, say, around 30 seconds.20 That comes out to 100 words or less. This description is used in one-on-one business settings and when someone asks for more detail after hearing your concept. In a time when politicians develop sound-bites and a good phrase can make a product (Altoids, for example, are "curiously strong"), having a high-quality elevator pitch for your business, like the following one for a cupcake truck, is more important than ever.21 Is there any dessert that can offer the variety, innovation or eat-it-anytime satisfaction of a cupcake? Red Jett Sweets is Fort Worth's first mobile cupcakery, delivering freshly-baked traditional favorites like Red Velvet, seasonal treats like Peter Pumpkin and unique specialties like Beloved Banana Foster to multiple locations every day. We offer cupcakes with home delivery, special orders, gift wrapping, private parties, and customization. You look like you could use a cupcake. What can we offer you? • Going up? Each year, Saint Louis University's Chaifetz Center for Entrepreneurship holds its national Real Elevator Pitch competition. Real students with real business opportunities submit their pitches online. The best are invited to St. Louis to pitch to real investors in real elevators in Missouri's second-tallest building. Could you convince an investor to meet with you during a 40-second ride covering 42 stories? To see the competition in action, visit vimeo.com/125537474. Saint Louis University The Red Jett elevator pitch leads with the hook—luring us to think about cupcakes right off the bat. It follows up with the solution: Red Jett's offerings of traditional, seasonal, and specialty types of fresh cupcakes. For a familiar type of business like this one, you talk about what makes your firm unique or superior to the competition, in this case, the ability to go to multiple locations, delivery, and custom order and service. If your pitch were for a new type of service, you would want to give the listener more details about how it works than may otherwise appear in an elevator pitch. The pitch includes supportive details such as it being the first mobile cupcakery providing freshly baked favorites in unique flavors. And it ends with an ask or sales pitch. This could also be where you close asking for money from seed investors. This is about 80 words and would take about half a minute to say. Listeners might be customers or investors, but either way, the goal is to sell them on the idea and their need for it. With this background, Skill Module 8.1 explains how to craft an elevator pitch.

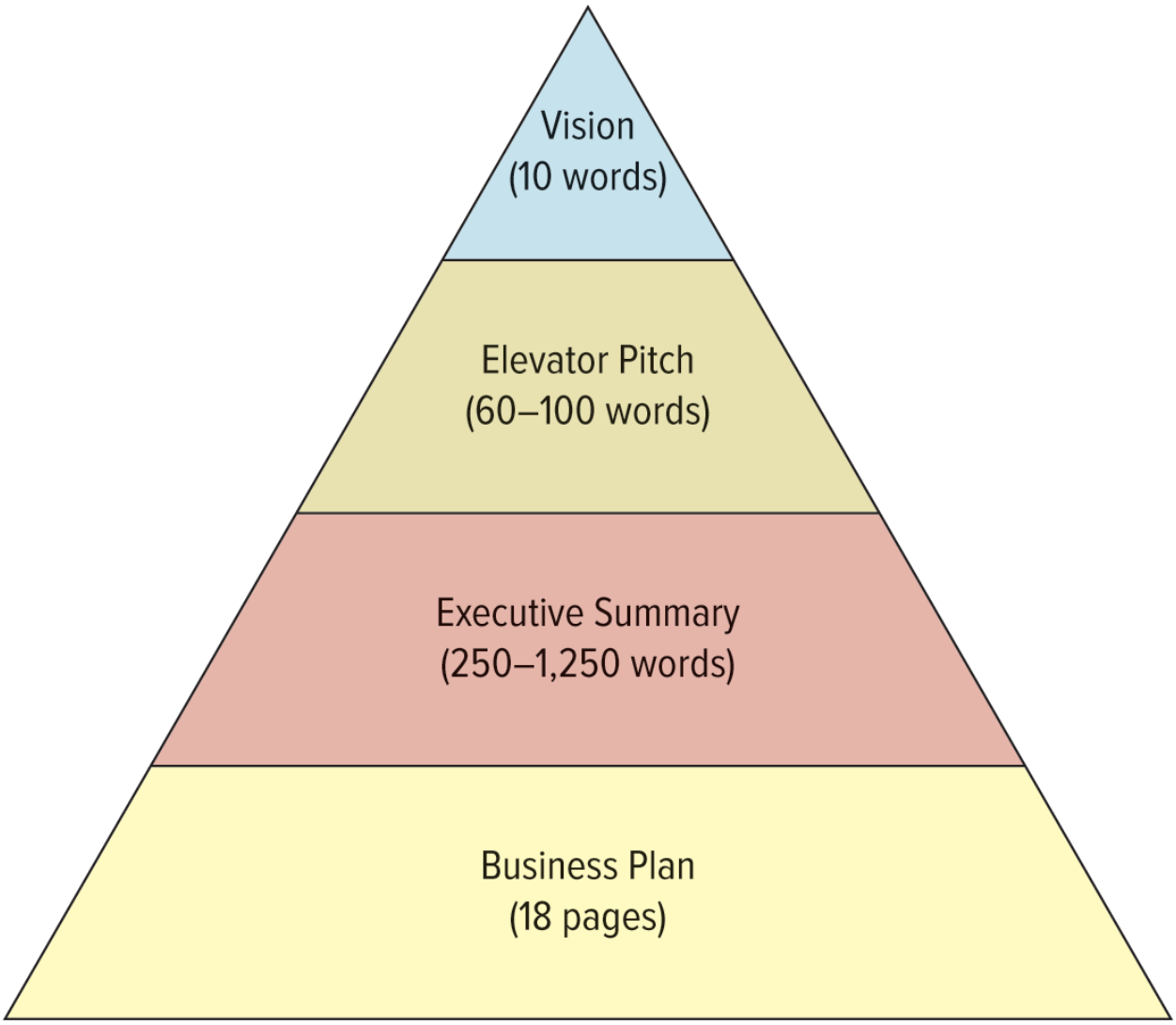
Page 231 SKILL MODULE 8.1 How to Write Your Elevator Pitch Elevator pitches have four success factors: hook, solution, support, and ask. First, find a hook—describe a problem you or the listener would face in a way that people would remember and take to heart. “Did you ever have trouble learning something?” Everyone has had that problem. “Big government couldn’t find new small businesses to help.” The terms are familiar and we could see the possible problem. “Imagine you have a beautiful 1967 Corvette but it has a busted water pump.” People could imagine a classic old Corvette, so this would work too. Second, focus on the solution your product or service serves for the customer. Do not talk skills (“I am a graphic designer”); talk about how you make customers happy (“I produce designs that sell books!”) or what you can do for them ("We take care of all your online marketing needs"). Stan Mandel at Wake Forest University created the first elevator pitch competition, so he knows pitches. He suggests using analogies. If you’re planning a website that connects people who love the outdoors with landowners who want to rent their properties for the day, you might say, “We will be the Airbnb for the outdoors.”22 It helps people quickly understand your firm. Great pitches or concepts aim to get the listener to ask questions or take some other form of “next step.” Stan suggests different pitches for different sorts of audiences—investors, customers, suppliers, and so forth. Third, provide support to prove to your listener that your solution is worthwhile. Traction with customers (whether sales figures, number of users, number of transactions) is often the best. Awards, recommendations, or high-star ratings by customers, experts, or the media can also help. Mentioning things like patents (even if they’re pending) or leading-edge, industry-leading, pioneering, proprietary, or proven technologies can also help. Finally, always close with an ask. This can be a request to purchase, an offer to tell more about your business, a follow-up meeting, a referral to someone who might benefit from your offering or help you or your business in some other way. If nothing else, ask how you can help the listener. There are two goals you can seek in your ask: One is to get the listener to make some sort of micro-commitment in favor of your business. Getting the listener to take a small step can reflect movement that will lead to sales down the road. The other is to build your network. Perhaps this person doesn’t need what you are offering, but might know someone who would. You never can tell. Once your elevator pitch is written, you need to become conversationally perfect in your delivery. You want to be able to give the pitch or concept dozens, even hundreds of times. Yet it is important that the pitch does not sound memorized. It needs to sound like regular conversation, preferably a conversation whose topic excites you. To achieve this, you must master the material and then keep working on it so that it becomes a natural part of who you are and what you say to others. Have family and friends listen to it. Consider using a video camera to see how natural you seem when making the pitch. Remember, the elevator pitch is often the first real insight people have about your business, so it is essential to have a pitch that flows and sells for

you. Realize that the goal in an elevator pitch is to start a connection. Even if you are asking the listener to buy, it is unlikely he or she will do so from a 30-second pitch. What is more likely—and what you should aim for—is to use the pitch as a first step in connecting with the listener. Exchanging cards, getting invited to his or her office to talk, grabbing a coffee, or even getting a call or email in the future are all considered outstanding outcomes from a pitch. What do you do if the listener says he or she is not interested (or doesn't say anything)? There are two options: You can ask if he or she knows someone who might benefit from your product or service. If the answer is yes, ask for a referral. The other option (which also works if the listener doesn't provide a referral) is to ask if there is something you can do to help him or her, if you haven't asked earlier. Either way, a thank you at the end is always a good idea. Page 232 The Executive Summary An executive summary is the key component of the written business plan because it is the one element that nearly everyone will read first when they receive a plan. If the executive summary is part of the full business plan, it is typically one page long. A freestanding executive summary can go as long as five pages. Either way, an executive summary is an overview of the business, its business model, market, expectations, and immediate goals. (See Exhibit 8.1.) Executive summaries remain the most popular item to send people who ask about your business. They comprise the core of a business plan presentation and form the basis for additional discussion when someone asks for more detail. Executive summaries are written in a formal style, suitable for investors, lawyers, and bankers to read. They give much more detail about the business than the vision statement or elevator pitch. Executive summaries are usually organized in a series of short paragraphs (three or four sentences) and typically cover five key topics. These topics are: Problem: Describes the need for the product or service. Product: Describes the product or service and how it is used. Market: Describes the size and characteristics of the customer group and how they will buy the product or service (e.g., in person, online, catalog). Competitive advantages: Explain what makes the product or service unique, often in terms of an entry wedge. Business/team: Describes the current stage of the business, the timeline, and the team behind the product. Financial summary: Gives sales, growth, and profitability information, and if funding is sought, an overview of that. EXHIBIT 8.1Executive Summary for Red Jett Sweets (with Sections Identified) [Product] Red Jett Sweets' mobile cupcakery will feature cupcakes that are freshly baked, with original and innovative flavors, high-quality ingredients, and an attitude that is fun, eclectic, seasonal, and traditional. Red Jett Sweets will price its cupcakes at $2.75. Other cupcakeries in the Fort Worth area sell their cupcakes for $2.50 and $2.95. Cupcakes will be the main focus of Red Jett Sweets, but a limited line of beverages will be sold to complement Red Jett Sweets' cupcakes. [Market] Red Jett Sweets' primary target market includes people aged 25 to 44 with household incomes of $75,000 or higher. Secondary target markets include people in younger (16–24) and older (45–54) age groups with

household incomes between $40,000 and $75,000. Red Jett Sweets' primary trading area will be west Fort Worth. In the 2001 census, the total number of households in our primary target market was approximately 29,000. The total number of households in both the primary and secondary target markets was 60,000. Red Jett Sweets' management and staff will provide customer service that is friendly and helpful, but not pressured, with an emphasis on building ongoing relationships. The mobile cupcakery will provide extensive client service offerings such as home delivery, special orders, gift wrapping, private parties, and customization. The mobile cupcakery design will create an inviting atmosphere that customers will enjoy visiting. Red Jett Sweets will focus on promotional strategies based on personal relationships, word of mouth, and social media marketing. [Competitive Advantage] Red Jett has three competitive advantages—our cupcakes, our location, and our social media efforts. We will offer our customers the greatest variety of products, best customer service, and best mobile food truck environment and experience, all available in accessible locations without paying more than at other storefronts in the area. Our mobility also means we are able to deliver larger orders. We will also have the most active Facebook and web media effort among competitors. [Business and Team] Red Jett Sweets, Inc. is a Subchapter S corporation opening a mobile cupcakery in August 2011. Red Jett Sweets will build a reputation in Fort Worth as one of the best cupcakeries in the area. Red Jett Sweets will provide its clients with innovative flavors, high-quality ingredients, and the highest level of customer service and satisfaction found anywhere. At the heart of Red Jett Sweets are the owners, Christina Meyer and Natalie Gamez Meyer. They will be responsible for all aspects of product selection, client relations, and day-to-day operations. Ms. Meyer has previous experience starting and running a small business, where she has demonstrated talent in most of the activities required to manage a small business. Ms. Gamez Meyer has worked at many businesses in the restaurant industry and still maintains many connections in the industry. She is very detail oriented and well organized, and has a passion for baking. [Financial Summary] Red Jett Sweets expects to achieve sales revenues of $48,379 in the first year and up to $167,723 by the third year. It may be possible to achieve higher sales than this conservative estimate, which is equivalent to 160 cupcakes a day from August to December. Break-even sales for the first year are $80,358 or 29,221 cupcakes. Net income after taxes is projected to be ($17,003) in the first year and over $19,500 by the third year. Note that during these first three years of business, the break-even sales is raised and net income is significantly lowered due to purchases of equipment and amortization of intangible assets related to Red Jett Sweets' start-up. Ms. Meyer's initial equity investment of $50,000 will fund the start-up of Red Jett Sweets. This includes $29,000 for the mobile cupcakery and small renovations; $13,000 in working capital; and $8,000 for marketing, equipment and R&D. [626 words] The order for the topics in an executive summary is not fixed, although most experienced readers will be

looking for the same items—markets, advantages, financials, and management. The summary is probably the single most important written part of the business plan for two reasons. First, it is the single most widely distributed written description of the business. Second, all readers of a business plan typically start with the executive summary, and then go on to the section where they can best apply their expertise. For example, accountants typically go to the financial projections after they've read the executive summary. It also is typical to include the key numbers for the business such as industry size, customer base, number of employees, or projected sales. However, it is important to make sure that the numbers can be supported by a trustworthy source. Examples of such sources include the government, industry associations, and major commercial sources such as Dun & Bradstreet, the Risk Management Association, BizStats, or Bizminer. The sources may be included in the executive summary or made available to readers in footnotes.





The Business Plan 8-3 Learn the major sections of the business plan. The business plan remains the standard for describing the business in detail. It takes all the elements introduced so far and includes them in a complete description of the major elements of the business. The eight parts of the full business plan are detailed here and outlined in Table 8.2. The full (or classic) business plan contains a cover page, table of contents, a maximum of 10 single-spaced pages of text (around 3,500–4,000 words),23 and 7 pages of appendixes that include the financials for a total of 18 pages.24 While the expected length of a plan is widely known, there are no “plan police.”25 Plans can be longer or shorter if needed. For example, a plan for any business whose product or service is new, even revolutionary, may need more pages to explain the product, service, or approach. However, recall from our discussion of strategy that most small businesses are more imitative than innovative. When you are going into an imitative business, your business plan might be

shortened. Where the type of business is well established, such as a dry cleaner or word processing service, the market is well defined and well known, and the entrepreneur comes to the business with experience in the industry, the amount of necessary description could drop. In such cases, you might be submitting a 2- to 3-page executive summary of the business, along with the financials and appendix. Table 8.2 summarizes the classic business plan in outline form, and page budgets are given for each content section. Note that the page budgets for items 3 through 7 total 8 to 9 pages. The leftover 1 to 2 pages available to you can be used to strengthen any of the regular portions of the plan, or bring up material you might otherwise put in the appendix to help better tell your story. TABLE 8.2 Business Plan Outline26Table Summary: Table summarizes the elements of a written business plan with corresponding number of required pages. 1. Cover letter (1 page, but is separate from plan) 2. Title page and table of contents (2 pages, not counted toward limit) 3. Executive summary (1 page) 4. The company, product/service, and industry (2 pages total) 4a. Company description (1 paragraph) 4a1. Vision statement 4a2. Company background 4b. Product/service and industry (1–2 pages) 4b1. Product/service description and value proposition 4b2. Industry description 5. The market (3–4 pages total) 5a. Market and target customer (1–2 pages) 5b. Competition and competitive advantage (1 page) 5c. Marketing strategy (1 page) 5c1. Overall strategy 5c2. Sales plan 5c3. Competitive plan 5c4. R&D/growth plan or next steps 6. The organization (1 page total) 6a. Legal and organizational structures and IP and locations 6b. Key personnel 6c. Key partners, advisers, and related service providers 6d. Key activities and operations 7. Financial summary: sales, profits, “the ask and deal” (1 page total) 8. The appendixes (typically 7 pages maximum) 8a. Financial statements (3 pages): income statement, cash flow projection, balance sheet, start-up costs, assumptions, schedule 8b. Supports: owner 1-paragraph biographies, product or service pictures, details or specifications, indicators of success Page 235 If you have tried the techniques introduced in Chapter 4 to screen your ideas and assess their feasibility, you’ve already done a significant portion of the thinking and writing you will need for the business plan. Table 8.3 shows how the sections from an IDEO screen, business model canvas, or feasibility study align with the sections of a business plan shown previously. TABLE 8.3 Comparison of Business Write-UpsTable Summary: Table (above) divided into four columns compares various write ups based on their alignment with business plan components. The column headers are marked from left to right as: IDEO screen; business model canvas; feasibility study; and full or classic business plan. Table (below) divided into four columns compares business write ups based on key sections. The column headers are marked from left to right as: IDEO screen; business model canvas; feasibility study; and full or classic business plan. IDEO Screen Business Model Canvas Feasibility Study Full or Classic Business Plan Cover letter Title page Executive summary Technical Feasibility Problem Solution Business

idea 1.1 Business description 1.2 You, your firm, and your fit The product/service 2.3 Stage of development 2.6 Trends related to product/service 2.7 Product/service delivery costs The company and product/service 4a. Company description 4a1. Vision statement 4a2. Company background 4b. Product/service and industry 4b1. Product/service description (and value proposition) Technical Feasibility Value proposition 2.1 Unique features: Benefits 2.2 Unique features: Limitations 4b1. (Product/service description (and value proposition) Market Desirability Customer segments Industry and market 3.2 Market potential for industry 3.4 Customers The market 5a. Market and target customer Market Desirability Customer relationships Channels 3.5 Market penetration 5c. Marketing strategy 5c2. Sales plan Technical Feasibility Distinctive competence Industry and market 3.1 Current industry 3.3 Competition 4b2. Industry description 5b. Competition and competitive advantage 5c1. Overall strategy 5c3. Competitive plan Business Viability Key resources Key partners 2.4 Legal restrictions and rights 2.5 Insurance requirements The organization 6a. Legal and organizational structures and IP and locations 6b. Key personnel 6c. Key partners, advisers, and related service providers Key activities 6d. Key activities and operations Business Viability Cost structure Revenue streams 4.6 Profitability 5.1 Start-up capital 5.2 Sources of start-up capital 5.5 Support needed Financial summary—sales, profits, "the ask and deal" Future action plan 5.3 Further information needed 5.4 Writing a business plan 5c4. R&D/growth plan or next steps Financial projections 4.1 Pricing 4.2 Sales revenue forecast 4.3 Cost forecast 4.4 Gross profit 4.5 Operating expenses Appendixes 8a. Financial statements: income statement, cash flow projection, balance sheet, start-up costs, assumptions, schedule 8b. Supports: owner 1-paragraph biographies, product or service pictures, details or specifications, indicators of success As you move through the different write-ups for your business ideas, you generally are adding detail to the ideas and its components. You are also building key details on how your idea will get translated into a specific business. These details are important. McDonald's and Red Robin are both hamburger restaurants, but their details differ dramatically. Let's look at the parts of the business plan from the start. Page 236 Cover Letter When you send a business plan to someone, it is a good business practice to include a cover letter. A cover letter is a one-page document that introduces the business plan and owner and indicates why the recipient is being asked to read the plan. It is typically the first written material someone sees about your business, so it needs to look and sound just right. The specifics of writing a cover letter are provided in Skill Module 8.2 in Appendix A of this chapter, along with an example of a cover letter. Traditionally cover letters were done on business stationery (also called letterhead), but today, with most business plans being submitted electronically, it is most typical to write a cover letter as email. If you go that route and you have a signature block for your business, include that. Title Page The title page typically contains the following information: Company name

(usually in large type, with a logo if you have one). Contact information (owner name[s], company address, telephone and fax numbers, email, website, and social media addresses). Date this version of the plan was completed. Proprietary statement to protect your ideas: For example, “This document contains confidential and proprietary information belonging exclusively to [your company’s name goes here]. Do not copy, scan, fax, reproduce, or distribute without permission.” On the line following this statement there may be a copy number unique to each copy of the plan. This helps you keep tabs on individual copies. There are three other possible items to include on the title page. One might be a securities disclaimer. If you are using a business plan to seek individual investors, it is important to state the following on the title page: “This is a business plan. It does not imply an offering of securities.” Typically this comes after or as part of the proprietary statement. The disclaimer is needed to comply with Securities and Exchange Commission (SEC) rulings. Another item to include is the name of the person who prepared the business plan, if it is someone other than the owner. The third possible item for inclusion is a notice of copyright for the plan or trademark for your brand name or logo, if you choose to pursue those forms of intellectual property protection. You can learn more about those in Chapter 17. Page 237 Table of Contents The table of contents typically puts the major section headings (e.g., executive summary, company, market, etc.) in boldface type and the sections underneath each in regular type. Page numbers are given for every component, including financial statements and appendixes. Remember to put page numbers on every page of the business plan, even the financials. Typically, the table of contents is combined with the title page or starts the second page of the plan packet. Executive Summary Many entrepreneurs write the one-page executive summary first, using it as a guide, and then write the rest of the plan. (We discussed the executive summary earlier in this chapter.) Covering the major sections outlined in Table 8.2 is the usual strategy—company, product/service, industry, market and target customer, competitive advantage, marketing strategy, organization, and financial summary where each is a sentence or two. In general, it is common to come back and revise the executive summary as your thinking changes as your write your plan, so it is the first and also the last item you will edit in your plan. Company, Product/Service, and Industry The first section of a business plan tells the story of your product or service, and the company that will deliver it. It usually consists of two subsections—one that provides an overall description of the business and another focusing on its product or service. The sections can come in either order. Company Description (1 paragraph) Typically this paragraph gives the vision or tagline of the company and a brief description of the business—its age, current status (start-up, seed stage, ongoing, expansion, and so on), and location, as well as the markets it serves or plans to serve. The firm’s most recent milestone achieved is often mentioned (received initial investments, finalized product design, tested a prototype, completed

market testing, made first sales, and so on). For an existing business, the history of the business is briefly covered here. Product/Service and Value Proposition (1–2 pages) In many ways this is the most important section of the plan because it is where readers come to understand what your business is all about—the product or service. Today this most often starts with a description of the problem (pain) you are trying to solve or the benefit you're hoping to deliver to the customer (gain). You then introduce your product or service as the solution, and explain how it works and how it delivers on the need. The description is often bolstered by a graphic of the product to help readers better visualize it. These descriptions are rooted in the idea of the value proposition introduced in Chapter 4 and the value benefits to the customer (quality, style, delivery, service, technology, shopping ease, personalization, assurance, place, credit, brand/reputation, belonging, and altruism) discussed in Chapter 7.27 The product's or service's competitive advantage is also mentioned here. Additionally, if the product or service has protection through a proprietary technology or from patent, trademark, or copyright, you mention it here. Industry (1 paragraph) The paragraph usually has the industry's formal name (possibly including its NAICS number), its size (in number of firms and sales), and whether the industry is growing, stable, or in decline (with some measure of this). Much of this information comes from the industry analysis, also discussed in Chapter 7. Page 238 The Market The market section talks about your customers—who they are and what they are like, who else is pursuing them, and how you plan to get and keep your customers. The market section builds on material you may have developed in the IDEO, business model canvas, and feasibility analyses you've done earlier (see Chapter 4), the industry analysis (see Chapter 7), and the marketing efforts plan (see Chapters 9, 10, and 11). Market and Target Customer (1–2 pages) As you can probably tell from the amount of space allocated, this is the second most important part of your business plan, because it tells us who will buy your product or service. The market refers to the total population of people or firms to whom you plan to sell. Markets are usually described in terms of their size (both in numbers of customers and size of sales) and scope (local, regional, national, international, global). The major ways the market is organized, what are called channels in the business model canvas, are also covered. Professional, trade, or industry associations, special-interest clubs, major national gatherings, and media dedicated to the market (e.g., Restaurant Business magazine for restaurant owners, or Scrapbooking & Beyond magazine for people who are into scrapbooking) are all relevant. The target customer section focuses attention on the individual who would buy your product or service. Target customers are described in terms of demographics (such as age, gender, education, income, experience), their relation to the product or service (will they use it themselves, gift it, resell it, etc.), how often they buy (once a day, once a week, twice a month, every three years, once in a lifetime, etc.), their past experience with your kind of product or service (new user, prior user of

competitor's product, prior user of your product), and what they are looking for when buying your product or service. Often target audiences are described in terms of the marketing funnel introduced in Chapter 10. What target customers are looking for should be based on discussions with potential customers, and it hopefully matches closely with the value benefits your product offers. Providing a comparison of the two is often a good idea. It is very common to have multiple target audiences, also called customer segments. When this is the case, you should provide a separate description of each one. It often helps to give each target group a specific name when you refer to them in the rest of the business plan. For scrapbookers, the target audiences have names like "kiddies," "moms," "grandmoms," "hobbyists," and "historians." Since your marketing plan can differ dramatically among the different groups—imagine how to sell to "kiddies" and "historians"—you want to have an easy way to differentiate them. There are several ways to develop these, such as empathy maps, user personas, and value canvases, which will be discussed in Chapter 9. Competition and Competitive Advantage (1 page) Consider doing this section with a half-page of text and a half-page table. The table identifies the major competitors for your market by name. Remember from Chapter 7, the vast majority of businesses are imitative in nature, not new, and rarely disruptively new. If you think you don't have competition, think again! What do your customers use to achieve your goal now? Find those firms or products and list them here. Other columns mention market shares, price, competitive strength, and competitive weakness. The accompanying paragraph summarizes the table's results and focuses on your firm's competitive advantage—what makes your product or service or firm unique—and how your competitive advantage gives you an opportunity to win sales from competing firms. Often this information is based on material gathered from the industry analysis (see Chapter 7). Some people prefer having this section included in the industry section. That works, too. The advantage of having it here is that it connects your market description to what you will do to sell your product or service against the competition. Marketing Strategy (1 page) Page 239 A good marketing strategy section focuses on three ideas: (1) the overall strategy your firm pursues in the market, (2) the sales plan that shows the specific ways you apply strategy to secure sales from your customers, and (3) the longer-term competitive plan that shows how you protect your firm from efforts of the competition to unseat you. Many of the specifics are built from the ideas you develop in the marketing chapters of the book, Chapters 9, 10, and 11. The overall strategy paragraph is a short one that discusses your generic strategy (differentiation, cost, focus) as well as any supra-strategies (craftsmanship, customization, etc.) or fragmented industry strategies (no-frills, formula facilities, etc.) you pursue. Explain here how each is used in your firm and in your sales efforts. The sales plan paragraph addresses the day-to-day specifics of how sales are achieved. It builds on the value benefits being sought by your customers and shows how

these are turned into promotional efforts, pricing and incentive programs, distribution techniques, and location. Most of all, it emphasizes the way you or your employees go about selling. Examples of advertising materials, displays, coupons, social media campaigns, or the like are useful and typically mentioned here, but details are put in an appendix. The proof that your approach is working comes from sales made using these approaches, so the strongest sales plans talk positively about the results of pilot tests, preselling efforts, or conventional sales already made. Being able to name customers (especially repeat customers) really builds up this section. R&D/Growth Plan or Next Steps (1–2 paragraphs) Over the longer term, even with a clear competitive advantage, a sound strategy, and a good sales plan, your competitors are not likely to give up the market. They will fight back. When they do that, trying to match your sales plan features or competitive advantage, what are you keeping in reserve to help you fight back? Here is where you want to have several additional strategies that play against weaknesses in the competition, or further improve your product or service. These can include protections through patents and intellectual property protection or relationships with powerful partners. You may have contracts that tie customers to you long term, but most often advantages come from bringing out improved versions of your product or service before the competition introduces its own improved product or service. Having these improvements ready requires some preparation on your part. In a business, this is often called research and development (R&D) or the growth plan. Most business plans add a section on R&D or growth here to explain how they are working to maintain an in-depth competitive advantage, with one or more additional generations of products or services ready to be used, or quickly brought to market, in order to keep the competition one generation behind your firm in meeting customer needs. Growth plans often talk about longer-term partnerships to be sought, new markets to be pursued, or ways to leverage the firm's assets, for example through licensing or franchising. Even for a firm at its earliest stage, before you know what your competitors' reactions will be, this section can be used to tell the steps your firm will be taking in the next few months to become established, beyond the specifics described in the rest of the plan. The R&D or growth or next step paragraph can occur in this section, or at the end of the plan as a means of outlining the business's future. The Organization In this section you lay out the components and supports for the firm itself. So far you have covered the product and the customer. The goal for this section is to convince the reader that the business will be successful because it has access to high-quality people both within the firm and within the larger business community, and the organization itself is structured to make the best use of those people. Legal and Organizational Structures and IP and Locations (1 paragraph) This subsection describes the legal form of the business (LLC, C corporation, sole proprietorship, etc.) and where it is formally registered (topics discussed in Chapter 17) and located (both physically and on

the Internet). If the firm has acquired licenses or certifications they are mentioned here, along with the firm's intellectual property protections, such as patents, trademarks, and trade secrets. If some of these are in process, mention that. Page 240 Key Personnel (1–2 paragraphs) By now you have sold people on your vision, mission, product, service, competitive advantage, and even your sales approach. It is now time to sell the most important single element in the business plan—you! In any business and any business plan, everything hinges on the quality of the entrepreneur behind it. If we do not have confidence in the entrepreneur, there is no way to have confidence in the other parts of the plan. The goal for the key personnel subsection is to inspire that confidence in your reader. Who are your key personnel? Any owners or senior managers count, as do people who will be handling key aspects of the business. For example, a salesperson with an extensive customer base would be a key employee, as would an employee who is locally famous for a skill the business will use. Often businesses have a circle of outsiders involved. This might include a local media personality who will be promoting your business, or the inventor or holder of a patent or trademark you are using, or the owner of a key outside venture partner. While you might put in the résumés of one or two key people in the appendix if you have the space, typically the key personnel are each described in a two- to three-sentence description. Simply put, the goal is to impress the reader. What is impressive? Accomplishments, and the closer these are to the business, the better. Having been successful in the business in this industry in another firm or in your own firm (if this plan is for an existing business rather than a start-up) is the best proof. Having been successful in another line of business is a good second choice. Having experience in sales is always useful, as is experience managing projects or people. Whenever possible talk about accomplishments rather than just experience. Achieving some mark of distinction, such as being a store's top salesperson, is best, followed by years of experience in some aspect of business, followed by education. Sometimes giving the specifics of the accomplishment does the job, even if no award was given. For example, being able to say "In my five years at Hobbyco, my sales increased an average of 50 percent a year" shows your sales abilities are improving, which is good. When looking for accomplishments, do not limit yourself to business. Particularly for students and stay-at-home spouses, there are often organizational accomplishments that are relevant. Activities undertaken or managed for schools, churches, social organizations, civic organizations, or community groups are often important indicators of expertise. For example, managing a team during a fund-raising event may help prove your skills in people management and making quick decisions. Often this section concludes with a sentence or two that makes clear how many employees there are and whether they are full time or part time, permanent or seasonal, family or nonfamily. Related Service Providers (1 paragraph) These days, small businesses are rarely alone, and the quality of the professionals surrounding you tells

people a lot about how good you might be. Taking a paragraph or two to identify your bank and banker, your attorney and legal firm, accountant or bookkeeper, and other consultants can help show that you have high-quality supports. If you have major relationships established with well-known suppliers or customers, list these here also. If you have a board of directors, members can be mentioned here or under key personnel. If you have a board of advisers made up of people who are not owners, they would be listed here. Key Activities and Operations (1 paragraph) Many times your business will operate in very standard ways. For example, most restaurants literally buy their kitchens and dining products from the same catalogs or showrooms. Letting people know that you will operate in a familiar way is useful. That said, the "imitation with a twist" strategy we recommend suggests that there be something in how you operate, or in your business model, or in your product or service that is distinctive, and this is a place to show how that twist plays out. Also, if there are key activities—things you must get right to be successful—or specialized operations that you want investors or partners to know about to prove you have mastered your business, this is a place to put that information. Page 241 The Financial Summary The one-page financial summary section starts with a paragraph (often with a summary table) showing the overall financial results (in sales and profits). It is followed by "the ask," which is what you are seeking from others, the use of the investment funds, and the projected returns. For all types of business plans, a set of financial reports or projections then follows as the central component of the appendix. For the summary and the full financials themselves, it is always important to develop them in the most conservative way possible—never overstate your sales or profits, always explain the assumptions you are making, and provide (or be ready to give) the source for every number you include. It is usually better to include fewer numbers, but ones you understand inside-out, rather than having lots of numbers, but knowing only in a general way how you arrived at them. "The ask" paragraph typically talks about how much money is needed and how the funds will be used. This paragraph goes on to address any prior or existing investments and the current ownership situation. Then it explains the funding type being offered to investors (see Chapter 14), giving the price and the kinds of assurances offered (e.g., seats on the board of directors, buy–sell agreements, etc.). Here the plan details how investors will be able to sell or redeem their funding in order to harvest their money tied up in your business, and exit the business. The best plans explain how investors will be assured that management will be responsive to investor concerns. The Appendixes The financial statements expected include (1) income statements (also called a P&L for profit and loss) and its assumptions; (2) cash flow and its assumptions; and (3) balance sheet and its assumptions. For start-up businesses, it is also common to include a listing of the expenses incurred in the start-up process. For an existing business, the financials report the last two years of actual data, and then offer three-year projections for the income, cash

flow, and balance sheet. For a start-up business, the tradition is to offer three years of data projections. If you will take three or more years to show a profit, it makes sense to give projections for five years. In either case, income and cash flow are given monthly for the first year, and annually for the second and later years. Think in terms of a layout described in Exhibit 8.2. EXHIBIT 8.2Financials Layout for a Typical Business Plan Page 1: Income statement and cash flow tables (year 1 by month, years 2–3 [or 2–5] by year). Assumptions given in endnotes or footnotes. Page 2: Balance sheet for years 1–3 (or 1–5) by year. Assumptions given in endnotes or footnotes. Start-up cost budget. Assumptions given in endnotes or footnotes. Page 3: Overflow from financial statements, footnotes or endnotes. Timeline or milestone list. Pages 4–7: Supporting materials that can help you tell your story better. (See the bulleted list below.) Note that each of the financial statements also includes its assumptions. Included as endnotes or footnotes, the assumptions are often considered to be the most important part of the financials. Assumptions explain how the computations are made, which items are included or excluded, and whether there are any special considerations underlying the particular numbers. For example, key assumptions include how sales are computed, which items are expensed versus depreciated, and how inventory and business valuations are made. A schedule of the major milestones or benchmarks the company plans to achieve is often included in the financials section, typically toward the end. If significant milestones or benchmarks have already been achieved, these can top off the schedule, so readers can see how the firm has progressed. Page 242 With approximately three pages used for financials, you have up to four pages left for appendixes. The ones you select depend on what you are trying to highlight in your business plan. They can include: Product or service pictures or specifications (important when you stress features or style, or when your product or service is not familiar to readers). Copies of signed contracts, letters of intent or commitment, or contingency contracts from customers or investors (useful to show acceptance). Results of marketing studies or pilot sales efforts (useful for showing market acceptance). Industry reports (if there is significant information not included in the plan). Price lists for products or services. Floor plans of the location, if it is central to the business (e.g., a manufacturing facility or restaurant). Advertising copy, such ads, logos, catalog pages, brochures, sales letters, or press releases. Customer or spokesperson testimonials. Letters of opinion from intellectual property attorneys on prospects for patent or trademark protection or from manufacturers or consulting engineers about the viability of production processes for the product. More detailed biographies of principals, or a one-page version of the owner's résumé (see Skill Module 8.3 in Appendix A of this chapter). If readers want to know more about something that is not in the plan, they will ask you for the additional information. So do not worry too much about the many possible appendixes you cannot include. The goal of appendixes is to provide the most essential supporting information that helps detail the

key selling points of your plan. The Mechanics of a Business Plan Most people use the outline and notes in this chapter to write a business plan from scratch. They talk with their team, their instructor, and their mentors about which parts of the plan to include or skip, and which parts to add material for greater clarity or impact. Other people prefer to start with the structure you get when you use a business plan writing program. The best-known commercial program is LivePlan.com from Palo Alto Software. The best-known free programs are given in the “Learn More Online” box below. While there is a lot of similarity between the formats of those online plans and the plan in this chapter, there are some differences of coverage and order. Table 8.4 compares the coverage of the model in this chapter (the ESB plan), the Red Jett Sweets example plan in Appendix B, the SBA’s business plan model, and LivePlan. Page 243 Table 8.4 Comparison of Business Plan ModelsTable Summary: Table (above) divided into four columns compares business models based on coverage. The column headers are marked from left to right as: ESB; Red Jett Sweets; SBA; and Live Plan. Table (below) divided into four columns compares business models based on format and key components. The column headers are marked from left to right as: ESB; Red Jett Sweets; SBA; and Live Plan. ESB Red Jett Sweets SBA LivePlan Cover letter Title page 1. Title page Cover page Executive summary 2. Executive summary Executive summary 2.1 Product 2.2 Customers 2.3 What drives us Executive summary 1a. Opportunity: Problem and solution Target market Competition Why us? 1b. Expectations: Forecast Financing needed The company and product or service 4a. Company description 4a1. Vision statement 4a2. Company background 4b. Product/service and industry 4b1. Product/service description 4b2. Industry description The Company 3a. Company description 3b. Mission statement/value proposition 3c. Products 3b. Industry Product/service line 5.1 Product or service 5.2 Pricing structure 5.3 Product/service life cycle Opportunity 2a. Problem and solution: Problem worth solving Our solution Company history* The market 5a. Market and target customer The Market 4a. Market & target customer 4b. Mobile cupcakery placement strategies Marketing research 4.1 Industry 4.2 Customers Opportunity 2b. Target market: Market size and segments 5b. Competition and competitive advantage The Competition 5a. Competitive 5b. Competitive advantage 4.3 Competitors 4.4 Competitive advantage 2c. Competition: Current alternatives Our advantages 5c. Marketing strategy 5c1. Overall strategy 5c2. Sales plan 5c3. Competitive plan 6. Marketing Strategy 6a. Marketing objectives 6b. Sales plan Marketing and sales 6.1 Growth strategy 6.2 Communication 6.3 Prospects 3. Execution 3a. Marketing and sales: Marketing plan Sales plan 6. The organization 6a. Legal and organizational structures and IP and locations 7. The Organization 7a. Legal issues Company description 3.1 Mission statement 3.3 Legal structure 4.5 Regulation 5.4 Intellectual property rights 4. Company 4a. Overview: Ownership and structure Intellectual property* Regulatory requirements*3. Execution 3b. Operations: Location

and facilities 6b. Key personnel 6c. Key partners, advisers, and related service providers 7b. Key personnel 3.2 Principal members 4b. Team: Management team Advisers Partners and resources* 6d. Key activities and operations 7c. Key operations [No equivalent section. You will need to add this.] 3. Execution 3b. Operations: Technology Equipment and tools 3c. Milestones and metrics: Milestones table Key metrics 7. Financial summary—sales, profits, "the ask and deal" 8. Financial summary [No equivalent section. You will need to add this.] 4. Financial Plan 4b. Financing: Use of funds Sources of funds Statements Exit strategy* 4b1. Product/service description 5c4. R&D/growth plan or next steps 5.5 Research and development Appendixes 8a. Financial statements: income statement, cash flow projection, balance sheet, start-up costs, assumptions, schedule 9. Appendices 9a. Appendix A: Financials 9a1. Start-up costs 9a2. Break even sales 9a3. Financial projections Financial projections 6.1 Profit and loss 6.2 Cash flow 6.3 Balance sheet 6.4 Break-even 6.5 Financial assumptions 4. Financial Plan 4a. Forecast: Key assumptions Revenue by month Expenses by month Net profit (or loss) by year 4c. Statements: Profit and loss statement Balance sheet Cash flow statement 8b. Supports: owner 1-paragraph biographies, product or service pictures, details or specifications, indicators of success 9b. Appendix B: Supports 9b1. Owners biographies 9b2. Mobile cupcakery 9b3. Product photos 9b4. Rack card - cupcake menu [No equivalent section. You will need to add this.] [No equivalent section. You will need to add this.] *In LivePlan, these items can be added into the plan. They are not part of the basic plan outline. Note: Items in bold are section headings. Consider using Table 8.4 to help you think about different ways to order your own plan and to think more broadly about what you want to see in your plan to make the best impression on the people reading it. You might also want to compare the plans in the table to other online options for business plans, such as those shown below. LEARN MORE ONLINE Learn more about the topics above at these sites: Purdue's INventure plan (free): www.purdue.edu/newventure/ TD Bank plan (free): www.tdbank.com/small_business/create-business-plan.html StratPad (free plan for college students and start-ups): www.stratpad.com/stratpad-college/ Business plan tool from Wells Fargo (free): https://bizplantool.com/ FormSwift plan (free): https://formswift.com/business-plan Page 244 At this point, you might think the writing of the business plan is done, but there is still work to be done assembling it. Plans are typically delivered as an 8 1/2-by-11-inch document or electronically as an Adobe Acrobat PDF file (that includes your financials and appendixes integrated into the single document28), which has been carefulee and repetedly checked to eliminate spelling and grammer mistakes [see how much a couple of spelling mistakes stand out and make you think less of the project?]. In these days of 140-character messages sent on the fly, everyone's spelling has suffered, but if your plan's words are problematic, readers may also

think your numbers, or worse yet your ideas, will also be full of mistakes. Page 245 Along these lines, make sure you have checked that all pages are included and cleanly printed. While your own copy of the plan will be in a loose-leaf binder to make insertions and deletions easy, the copies you give out should be spiral bound (so they lay flat when opened). Covers should be sturdy to protect the plan from the inevitable coffee stains of business. Cover letters are typically clipped to the cover, rather than included in the plan itself, so the reader opens the plan to see the title page. There are typically two versions of any business plan: the one you give others and the one you keep for yourself. The difference is what is included in each. As we've said, the plan you give others is 18 pages long. That plan becomes the basis for your personal copy, but you add to your personal copy the material on which you built your plan, things like the detailed market study or competitive analysis, the detailed product comparison, the details of your pricing or costing model for your financials, the agreements you have struck with partners, leases, intellectual property filings, the interviews you have conducted as you built your plan, or if you are already in business your customer lists or accounting records—in short, anything a potential investor or partner might ask of you to back up what you have included in your plan. • Three-rIng-binder version of your business plan with tabs for major sections and subsections. Jerome Katz As you can tell, this means your personal copy of the plan is probably a good-sized three-ring binder, ideally with tabs for each section of the plan and even for the major documents within each tab. This is the copy of the plan you take with you when you present. Why a three-ring binder rather than a copy on your laptop or tablet? Because any panel of investors will want different items at about the same time, and a laptop can be used by only one person at a time. The paper copies can also be easily handed out, or spread out and compared. The electronic version of the three-ring binder is called a data room, and is what you share with potential financiers when they are looking at nearly every aspect of your business in-depth as they consider investing, a process known as due diligence. You can create a data room by creating private folders in Google Drive or Dropbox and sharing the URL with those considering your business, or use dedicated data room services like Box.com or one of its several competitors.29

Focusing Your Business Plan 8-4 Focus business plan sections to meet specific needs. To be successful in telling the firm's story, a business plan needs to match the needs of the reader. Businesses face four situations in which reader needs are specific enough and distinct enough that it makes sense to write the plan with particular emphases in mind. Plans for a pioneering business: When your product or service is truly new to everyone, it is

considered a pioneering business. With a pioneering business, your greatest problems are (1) helping people understand how it works, (2) showing them how they would use it, (3) estimating how many people would want it, and (4) estimating how much they would be willing to pay for it. Anything you can do to help readers experience and understand the product or service helps demystify it. Plan on a detailed explanation of the product or service and how it works. Make sure you explain the benefits customers would receive, and talk about the customer's personal experience in trying out, buying, and using the product. The value of preselling, pilot tests, or test marketing cannot be stressed enough. If 100 people tried the product and 10 bought it, you have a powerful proof of concept. Pioneering products also face a hurdle around manufacturing—can they be manufactured at a cost that leaves a chance for profit? Letters from manufacturers or consulting engineers confirming the viability and production costs of your product go a long way to alleviating fears in this area. Also, if your product is a minor variation on a product already made (for example, a consumer version of an existing industrial product), play this point up, since it means fewer problems are likely for your specific product. Plans for a new entrant business: When your product or service already exists but your firm is the first of its kind in your market, it is considered a new entrant business. As such it is always harder to prove that your product or service will work. Just imagine trying to explain the idea of a $5 cup of coffee to people who had never heard of Starbucks! In response, help make the product or service seem more familiar by detailing how it is used by customers, and give more background on how the product or service has done in other markets, especially markets similar to yours. Also emphasize existing operations in your industry analysis. Seeing that it has worked elsewhere takes much of the mystery out of the question of whether it would work where you plan to market it. Plans for an existing business: Occasionally, entrepreneurs start a business before they write a plan for it. When writing a plan for an existing business, you have the benefit of knowing the history, the existing market, and the financial track record of the firm. These form a foundation for the plan, so the projections about future markets, sales, and profits should clearly build on these historical facts. It can make sense to gather information on existing customers to help clearly define the market, and often suppliers and trade associations can provide more in-depth information on market shares and competitors. Existing firms have assets to protect, such as the customer list, the firm's name, and any intellectual properties it has developed (e.g., a patented way of performing work, a trademark, a copyrighted report, a recipe protected as a trade secret). Showing how you plan to protect and perhaps even make additional profits from your intellectual property (e.g., through licensing patents or trademarks) strengthens the plan, as does talking about new ideas for increasing sales, which typically appears in the research and development section. Plans for a business with significant government involvement: Some businesses depend on government approvals to go forward. Examples

include salvage yards, garbage dumps, companies using toxic chemicals, nursing homes, service stations, and even in many places, day-care centers. When government gets involved in a major way, for example, having to approve the business license, zoning, or environmental impact, delays are inevitable. You need to build a plan that anticipates delays and either works around the parts of the business requiring approvals or is able to go into a type of sleep mode, using as few resources as possible until approval arrives. Working around approvals usually hinges on selling services or products that are part of the business but do not require specific approval. For someone starting a service station, it may be possible to do minor car repairs such as oil changes, detailing, or tune-ups at the customer's home or workplace. This helps spread the word, build a customer base, improve skills, and keep cash flowing until approval for the service station comes. Page 247 Once you have written the complete business plan, you are positioned to create special-purpose versions of the plan to meet the needs of a wide variety of people important to your business. Usually these special-purpose plans use a subset of the total plan. In addition to the full business plan described previously, there are seven other special-purpose types of plan:30 If you intend to send your plan to professional funding sources such as private banks, investment clubs, or venture capital firms, it is common to send what is called a mini-plan or a screening plan. The idea is to give the basic overview of the firm and a detailed look at the financials. This is because funding sources typically start their decision process with clear ideas about the industry and the profit levels they want to pursue. Screening plans usually consist of the cover letter, title page, executive summary, and financials sections of the business plan. The only time any appendixes would be included is when it is important to prove the viability of contracts, intellectual property protection, or the product's ability to be manufactured. A screening plan can also be a useful way to get into the planning process. Michael McMyne won one of the Global Student Entrepreneur Awards for his consulting business. When he started, all he used was his executive summary and the financials.31 You may find that the business plan has a lot of information you would like to share with potential customers or suppliers, but you do not want them to see your financials. One variant of the traditional business plan is called the informational plan. Informational plans typically consist of company and organization sections. The cover letter, title page, executive summary, and table of contents are typically revised to reflect the differences. Relevant appendixes might also be included, such as detailed product descriptions or price lists. A special form of informational plan posted on the Internet is the proof-of-concept website. This kind of site is designed to solicit information on customer interest. They are particularly useful for demonstrating a technology or service that is new or novel or to reach a market that is very widely spread out, making conventional promotional techniques too expensive. The goal is to inform customers and partners about the firm and the product, so proof-of-concept websites

consist of the vision and mission statements, the product/service description, and often an animated or interactive demonstration of the product or service. Short biographies of the key personnel replace résumés, and the site may also have price or product lists or testimonials. The site itself tracks information about the viewers. Visitors are asked for feedback on the concept and are offered the chance to be kept up-to-date as the product nears the market. In seeking a marketing or joint venture partner or a key employee, you need to provide more of an idea about your market and approach to it. In the early stages of finding a partner, however, it is usually too soon to share your detailed financial information. As a result, a key employee/partner plan (also called a summary plan, concept plan, or idea plan) can be drawn up to include all the materials of an informational plan, plus the market section and critical risks subsection of the regular business plan. An invention plan focuses on the market and operationalization of a new invention. Inventions are typically licensed to others, so the organization section simply describes the inventor and any business the inventor runs, to provide background. The product or service being invented is given a very detailed description, with diagrams or pictures to help the licensee understand it. While the plan helps explain the market and competition to the prospective licensee, the marketing strategy is not typically included. Legal issues tend to focus on intellectual property protection (e.g., patents, trademarks, etc.) instead of on the legal form of organization, and the financials are limited to the prospective deal and risks, since the invention does not come with a firm that creates sales. Page 248 There are only two types of plans that actually add material to a full business plan. Operational plans are designed to be used as working documents within a business. So in addition to all the material typically included in a full business plan, an operational plan includes detailed specifications of the major techniques, methods, recipes, formula, and sources used by the firm to do its work. The other type of plan that adds to a business plan is a private placement memorandum (PPM) or an offering circular (OC) for equity crowdfunding under the JOBS Act. PPMs and OCs are the official versions of a business plan offered to potential investors. As such, it is a legal document, and should be drafted by a lawyer. PPMs/OCs build on a business plan, using information about the company, products and services, strategy and operations, and competition. There are also sections on the risks facing the business, the people and partnerships, the deal being offered, the financial statements, and the planned use of the investment money, although these are often longer (for the risks section, much longer) than in a business plan. There are also sections unique to a PPM/OC such as a plan for the description and distribution of shares, compensation of managers and officials, and even the articles and bylaws of the corporation. In short, PPMs/OCs are complex and exacting and should be left to lawyers. However, the basis for a PPM/OC is the business plan that you create. Table 8.5 provides an easy way to compare the different types of special-purpose plans and the components they take from the full business plan.

Even though the table shows the business plan sections and subsections usually included, it is important to keep the specifics of your business and your readers in mind. If sections of the business plan seem inappropriate for your type of business or for the specific readers who will see the plan, it makes sense to leave them out. The business plan is first and foremost a sales document, and tailoring the plan's "pitch" to the specifics of your business and the readership is always a smart move. TABLE 8.5 Types of Business PlansTable Summary: Table (above) divided into eight columns compares purpose-based business plans based on components. The column headers are marked from left to right as: business plan sections; full business plan; operational plan; invention plan; key employee/partner plan; informational plan; proof-of-concept website; and screening plan. Table (below) divided into eight columns compares seven types of business plans based on their sections. The column headers are marked from left to right as: business plan sections; full business plan; operational plan; invention plan; key employee/partner plan; informational plan; proof-of-concept website; and screening plan. Business Plan Sections Full Business Plan Operational Plan Invention Plan Key Employee/Partner Plan Informational Plan Proof-of-Concept Website Screening Plan 1. Cover letter X X X M M M 2. Title page X X X M M M 3. Table of contents X X X M M 4. Executive summary X X X X M X 5. The company X X M X X 5a. Company description X X M X X X 5a1. Vision statement X X X X X 5a2. Mission statement X X X X X 5a3. Objectives (optional) X X X X 5a4. Company background X X M X X X 5b. Product/service and industry X X X X X X 5b1. Product/service description X X X X X X 5b2. Industry description X X X X X 6. The market X X X X 6a. Market and target customer X X X X 6b. Competition and competitive advantage X X X X 6c. Marketing strategy X X X 6c1. Overall strategy X X X 6c2. Sales plan X X X 6c3. Competitive plan X X X 6c4. R&D/growth plan X X X X 7. The organization X X X X 7a. Legal and organizational structures X X M X X 7b. Key personnel X X X X X 7c. Related service providers X X X X X 7d. Location X X X X 8. The financials X X X 8a. Critical risks X X X X X 8b. The deal X X X 8c. Income statement X X X 8d. Cash flow projection X X X 8e. Balance sheet X X X 8f. Start-up budget 0 0 8g. Assumptions X X M X 8h. Schedule X X X X 9. The appendixes X X 9a. Owner's résumé X X 0 0 M 0 9b. Popular appendixes X X 0 0 0 0 10. Detailed specifications of work 0 X Note: X = Included; M = Included in modified form; O = Optionally included. PPMs and OCs are not included since they are done only by lawyers.

The Most Common Critical Risks in a Plan 8-5 Identify the major risks to business plan success. Every business faces risks in the real world, so every business plan needs to spend some time addressing them.32 The exact issues raised by business experts, bankers, lawyers, and investors are often specific to your plan, but the themes they

consider in assessing risks are actually quite common. Knowing these risk themes, you can go through your business plan, identify the risks, and determine how you want to handle them, the way the founder of Daniel J. Watkins Photography did (see the following Small Business Insight). Each of the risks can be handled, but the best test is to have people in your target audiences give you feedback on your plan. Overstated numbers: Examples include sales or profits that are too optimistic, owner salaries above the minimum needed to live when the firm is just starting out. Numbers that are wrong: Examples include balance sheets that do not balance, numbers in the financials that do not flow from one section to the next, no assumptions given for the financials, and ratios that do not match RMA or other standards (Standard & Poors, Bizminer), with no explanation given for the differences. Inadequate cushion: The number one killer of young firms? Not enough money. Having enough cash (called working capital) to survive three to six months goes a long way to avoiding this risk. Inadequate payback: There are always opportunities out there; is yours worth someone's time, energy, and (maybe) money? Any plan that does not clearly specify the key paybacks to readers will fail to sell them on the idea. Don't offer an investor a 10 percent return when corporate bonds offer nearly that with little risk of default. Narrative and financials that do not fit: If you have a plan that calls for a large marketing campaign, but financials do not show costs for one, there is a problem. No direct customer connection: If it sounds like you have not actually talked to potential customers about your product/service, readers will consider that a major problem. Page 251 Uncertain sales (especially conversion rates): You need to prove your sales estimate. The best way is to know your conversion rate (alias hit rate), which is the percentage of people who buy out of the total population of people you approach. You get this from test marketing or preselling (introducing your product to potential customers and taking orders for later delivery). Overlooked competition: You do not want to overlook a major player in your industry. If a search on the web or in a phonebook can turn one up you could be in trouble. Also be broad in your search for competitors. For example, a student claimed there was no competition for his wireless cell phone headset because he didn't use Bluetooth, but the Bluetooth headset makers could quickly change radio types if it made business sense. Recall Porter's five forces (rivals, substitutes/alternatives, buyers, suppliers, new entrants) to find competitors. Page 252 Experience deficits: Do you (or someone else in your firm) have experience in (a) the line of business, (b) the industry, (c) the locality, (d) managing?33 Have it, find it, or say how you'll learn it. "What" problems: For the product or service, make sure it is explained clearly enough so anyone could understand it. Also make sure the plan (or cover letter) is clear about what is being asked of the reader (e.g., invest, make a loan, give feedback, partner, etc.). Deadly aggravations: Looking and sounding professional is key. A plan with misspellings looks amateurish. Lacking a table of contents or page numbers in the plan makes life harder for people you want to impress. Selling

instead of summarizing in the executive summary comes across as hucksterism. Ideally, you should have a circle of advisers who can review the plan and help identify the critical risks and your coverage of them. This circle might include successful entrepreneurs you know, lawyers, or accountants. Other good resources include the free consultants from the Service Corps of Retired Executives (SCORE), available via www.score.org, or your local Small Business Development Center (www.sba.gov/sbdc). There are even websites that make it possible for you to get a preliminary analysis of your plan. The SBA has an online self-assessment (https://eweb1.sba.gov/cams/training/business_primer/assessment.htm) that is keyed to SBA resources and is suitable for a wide range of businesses. To get a quick check of your major financial measures, you can use the BizStats website (www.bizstats.com). The key is to get as much feedback as possible before sending it out in hopes of money, sales, or people. SMALL BUSINESS INSIGHT Analyzing Risks at Daniel J. Watkins Photography Daniel J. Watkins Photography Award-winning photographer Daniel J. Watkins started two businesses in the last decade—one succeeded and one failed. In that first business, sales never seemed to take off, and the financial health of the business was not as clearly known as it should have been. Dan feels the major difference between the two was the presence of what he called “a good solid business plan” for the second business. Dan argues that a thorough business plan can turn great ideas into reality because it forces you, the prospective entrepreneur, to take a close 360-degree look at your business ideas. For Dan the plan became a basis for evaluation as his business grew, with detailed sections on the market, how to sell to them, and the financial projections those sales should generate. He knew he was getting the hang of business when the second business venture became profitable in the exact year, quarter, and month that his original business plan had forecast it would. The one element of the plan Dan credits with the most importance was the critical risks section. Dan claims, “If I hadn’t considered some of the potential pitfalls associated with my original business ideas, my business venture probably wouldn’t have been successful or profitable at all.” For Dan, the plan made all the difference, and the critical risks section made the plan.

Pitching Your Plan 8-6 Master pitching your business plan to others. When it works, a written business plan is the way to get on the schedule of someone who can provide the money, the expertise, or the markets you seek. In such cases, the written plan is followed by a chance for you to make a formal presentation of your plan and answer questions about it. This presentation is called a pitch, and the slideshow you have created for the pitch is called your pitch deck. The pitch, like the plan itself, has a very clear tradition about how it is supposed to be done. Knowing this tradition can help you quickly learn what is expected when pitching a plan to others. • Presenting your business plan as often as possible, to

fellow students like you see here or to businesspeople, can help you become a more polished and professional presenter. What is the biggest challenge you feel you face in pitching your plan to others? ColorBlind Images/Blend Images LLC A business plan presentation or pitch usually lasts 10–15 minutes, followed by 15 or more minutes for questions. Usually the pitch provides an overview of the key points of the business plan—a chance to sell your ideas and, most of all, a chance to sell yourself. Page 253 A major part of any business plan presentation is a chance for the listener to form an opinion about you as an entrepreneur. The key things an influential person looks for in you are (1) your passion for the business, (2) your expertise about the business and the plan, (3) how professional you are in your work, and (4) how easy it would be to work with you. How do you show these? Passion for the business: When pitching, do not read. Think of yourself as telling a story—a fascinating story—about your business. Help listeners understand why you are excited about the business, proud of it, and ready to stake your reputation and assets on it. Learn your pitch so well that it comes out as an often-repeated, beloved story, not as a prepared statement. This is the point where watching pitches on Shark Tank can prepare you for the real world. Expertise about the business and the plan: Practice answering questions about the plan. Expect really tough questions. Assume people do not trust your assumptions when they first read them. Be ready to explain where you get your assumptions, your numbers, and your ideas. Be ready to mention sources. Be ready with comparisons to competitors and their offerings. (This is where your three-ring binder with the backup information becomes invaluable to you.) Know how every number in the plan came about and what it means. For example, it is not uncommon for a banker to ask, “In your cash flow statement for April in the first year, you say you will be spending $1,140 on sales promotion expenses. How did you get that number—and isn’t it a bit high?” It is better to have less material and know it backward and forward than to have material in the plan you do not totally understand. How professional you are in your work: Your plan should look professionally done. It should be neat and orderly, with perfect spelling and grammar. When you present it, you should be in business attire, clean and pressed. Carry copies of your presentation slides to give the listeners. And have copies of your slides on USB so that you can present no matter what technology is available. Have business cards ready, and bring a couple extra copies of the plan in case someone unexpected comes to the presentation. Meet all those attending the presentation with a smile and a firm handshake. Give them your card and take theirs if they offer one in return. Make sure you know the names of all the people in the room, and their position, so if there is a part of the plan you think might be of interest to them, you can mention it. How easy it would be to work with you: Typically when you are presenting a business plan, you are doing it with the goal of establishing an ongoing relationship with the listener. All relationships carry an element of liking. It is easier to see yourself establishing a relationship with someone you like than with

someone you do not like. Part of the goal in the presentation is to get the listeners to like you. How? The techniques are simple—use eye contact, use people's names, remember what they might be interested in or in what they have shown an interest before, smile, and above all, be honest. When they ask tough questions, try not to get nervous, upset, angry, or defensive. If you do not have the answer, tell them so honestly, make a note about their question and name (do it right then—it gives them confidence you're taking them seriously), and tell the person you will get back to him or her with the answer. Then make sure you deliver on this promise! Recognize that tough questions are the listeners' way of making sure they—and you—are protected from risks. It may be hard to accept it when you are pitching, but no matter what the outcome, there are two points in the presentation where your listeners will be giving you value: in the questions they ask you and in the feedback they give you at the end of the session. Make sure you have someone taking notes for you (you will be busy answering questions) or ask if you can record the Q&A session on your smartphone (make sure you have an app for it). Knowing what kinds of questions are being asked can help you prepare for the next time, and can also inform you on how best to revise the plan. Recalling what the feedback was regarding you and your plan also gives you a powerful leg up for your next presentation. If the listeners offer feedback after your presentation is over, take notes or see if you can record that too. Typically the presentation follows the content of the business plan. For different audiences, for example, potential partners or customers, you delete slides—just as you delete sections in the business plans for partnering or customer information plans. Page 254 Crafting Your Pitch Deck Probably no part of the business plan experience has changed as much in the past few years as the creation of pitch decks. Part of this comes from research. Online pitch deck sites like DocSend.com or DocDroid.net track how long viewers spend on slides, and in what order they look at slides.34 Online displays of pitch decks reflect one of the two ways they get seen. The other (and more common) way is a face-to-face presentation between the start-up's entrepreneur and a judge in the classroom or a potential investor or partner outside of school. For either setting, the contents of a solid pitch deck are very well known. Exhibit 8.3 gives the specifics on the content of the slides and what you talk about when presenting the slides. Each category has one slide, unless noted otherwise. This approach leads to a 15–17 basic slide deck. By the way, the typical font size is 30 points or larger for text and 44 points or larger for titles. EXHIBIT 8.3Pitch Deck Slide Categories Introductory Slide: This slide has your firm's name and the names of the owners and presenters. It introduces your firm by name, as well as you and any other people from your firm whom you have brought with you. Company Purpose Slide: While showing this slide, you thank your listeners for the opportunity to present and explain the purpose of the business as well as the purpose of this presentation of the plan (e.g., financial, partnering). Problem Slide: This slide tries to make real to the listener what is the problem customers face or what is missing from their

experiences. The more important this is, the better. Sometimes the problem is given in the form of a user's experience. Solution Slide: This slide demonstrates how your product or service solves the problem or provides a much-needed benefit. Sometime entrepreneurs will skip this slide in favor of the product slide doing double duty. Product Slide(s) (1–2): Often it is useful to go into more detail on your product or service—how it works or its details. Your goal is to give the listener an in-depth understanding and create a positive attitude toward your product or service. Why Now Slide: What makes this point in time the right one for your business idea? New problems? New technologies? Failures of competitors? Legal changes? Something missing locally? Market Size Slide: This slide gives the size of the overall market (customers/sales) as well as the specific target market you can sell to, address, or service. Business Model Slides (2–3): There is often more than one slide in this category. Building on the market size, this section explains how you will market, distribute, and get sales made, with an eye toward how you will generate revenues and profits. Competition Slide(s) (1–2): One slide identifies the major competing firms or products/services and shows how you compare to them. A second slide usually shows how you will successfully compete against these firms and what is your general strategy and distinctive competence. Team Slide(s) (1–2): Investors invest in people as much as in ideas. This slide presents the key people with the one or two skills they have that are most persuasive in proving their expertise or their contributions to the business. If you have partnerships or alliances with names the listeners would know and respect, these can be included (often as corporate logos) and briefly mentioned on an additional slide. Financials Slide: Here you give the sales, breakeven, and profit projections for the firm for the period covered in the plan. Be prepared to mention the worst-case scenario projections if asked, but explain why you think the numbers on the screen are the most likely ones. The Ask and the Deal Slide: "The ask" can be funding, partnership, mentoring, network access, or just general support and feedback. Give this line in your most confident and sales-oriented manner and mention that you believe you have shown this in today's presentation. Include a line on the slide with the request from the listener ("Distribute our product," "Line of credit of $100,000," "Investment of $50,000," "Mentor our firm on selling to corporations"). In covering this, explain briefly what the use of the listener's resources will be. There should also be a line on the slide for what is offered in return (for the items above—the opportunity to grow sales, savings moved to a bank, stock in the firm for investors, or a chance to help a great young firm grow). This is what is called "The Deal" by investors. Closing Slide: Slide decks end with a slide that says thanks and asks for questions. Page 255 Storytelling and the Art of the Pitch The hook-solution-support-ask model we introduced for the elevator pitch can be easily expanded to handle the pitch deck. The greater time available to you when pitching means you can engage in telling more of a story about your recognizing and solving the problem, and a lot more about the

company you have developed to implement your solution. These stories tend to fall into one of several storytelling arcs. The model we use is based on one of the oldest and best-known models, Aristotle's Three-Act Structure.35 Act I—The Beginning: You set up the story The arc starts with the hook, which gives listeners a little bit of introduction about you and how you came to recognize a problem in the world or something you felt needs to be done. This is the first effort to introduce a little bit of drama in your story. Act II—The Middle: You introduce the inciting incident and action rising to the solution You tell listeners about the problem, who has it, the problem's size, and why it needs to be solved. This part of the story is intended to make listeners realize that something needs to be done—it builds up the drama in your story. You introduce what the solution is, the story of how you arrived at the solution, and why it helps solve the problem. The drama in this part of the story comes from your efforts to solve the problem, why it is a good solution, and why now is the time to solve the problem. Act III—The End: You tell listeners the rest of the story and conclude You add the supports that tell listeners about the business you have created to make the solution available. Here the drama is replaced by parts of the story that help listeners feel good about your firm's ability to keep solving the problem. Having heard the story's hook, problem, solution, and supports, listeners should be ready to hear you ask for the kind of help you want from them. Since this is you asking listeners to consider doing something, it shifts the drama from you to them, and your asking them for something should help them increase their own level of readiness, if for no other reason than you are asking for a response from them. Finally you offer a closing that brings the story to its conclusion, typically one that ties back to the beginning, thanks listeners for listening, and opens the floor for questions and responses from them. Page 256 If you look atFigure 8.2 you can see how the four sections of an elevator pitch relate to the elements of the storytelling arc and to the slides of a typical pitch deck shown in Exhibit 8.3. The figure also shows how the drama level increases and changes as you tell your firm's story. The drama shouldn't be coming from your voice (we are not talking about screaming about the problem!) but rather from the nature of the story itself. Most of us, when hearing about a problem, want to see it get resolved. If a solution was not obvious, we appreciate it more, and if you ask us for something, we typically will give it some thought. These are the natural elements of drama that we expect when we find ourselves in the role of a listener. Use it to your advantage. FIGURE 8.2The Storytelling Arc and Its Relation to Elevator Pitches and Pitch Deck Slides The Mechanics of Pitching Like the three-ring-binder version of the business plan containing additional appendixes and background research and material on the business, the pitch deck you take with you in reality is likely to have a lot more slides than the ones shown in Exhibit 8.3. A 15-slide basic pitch deck can often have 25 or more additional slides prepared to answer questions likely to come up, or provide additional depth on the topic raised in the plan or pitch. There is nothing that proves your mastery of

your business and the pitching process like being asked a question and pulling up a prepared slide with the answer. The mechanics of pitching typically involves presenting your pitch deck using your own laptop or tablet, or one at the location where you are pitching. In designing your pitch deck, it is worth taking time to think about how easy it will be for listeners to see your slides. If you're using a laptop or tablet, small type on a slide becomes a hindrance to your pitching. When most people see a slide dense with words or numbers, they tune out the speaker to take a few seconds to figure out what is on the slide—that's the power of visual stimuli working. To have people focus on you and what you are saying, craft slides with few words or numbers. If you are creating a pitch deck for online access, an almost opposite set of rules apply. Since you won't be there to explain what is on the slide, you need to create the pitch deck that can convey your thinking without you being there. In this case, having more words on each slide is acceptable, and adding enough slides to make sure people understand the basics of your business is fine. Unlike the pitch deck for a 10-minute presentation, which has a natural limit on how many slides you can cover, the online pitch deck is less constrained. That said, the DocSend study reported that investors looking at pitch decks online spent only 3 minutes and 44 seconds on average looking at a pitch deck! One other mechanical aspect of the pitch deck is the specific program and templates you use for the pitch deck. When you are starting out, using PowerPoint or Keynote to outline your thinking is fine, but as you move closer to presenting for real, you want to "up your game" in terms of the quality of the slides (see the Small Business Insight for an example of this). Page 257 SMALL BUSINESS INSIGHT Three Generations of a Pitch Deck Holly Faivre, Lauren Hoffmann, and Jackie Price were working on a product called "Good For U," a superfood additive for smoothies and yogurt. Over the course of a semester in the business plan class, their pitch deck went through several iterations. The three key stages are shown here for the product slide. • Version 1: The initial product slide. Initially, they started by outlining ideas. This was a bare-bones effort to help get the ideas down on the version 1 slide. As they became more confident about the content, they sought to make the slide more attractive and professional. Using Google Slides, they added pictures they found on the Internet, as you can see below in version 2. • Version 2: The revised product slide. Lauren had a friend, Jessica Burgess, who was a graphic designer, and they worked out a trade—a revamped slide deck in return for a home-cooked dinner. The change from "You" to "U" came from a trademark conflict the team discovered. Version 3 shows the resulting final design used in the presentation to judges. • Version 3: The final product slide. GOOD For U This sort of revision process is typical of the development of pitch decks. If you don't have access to graphic designers, consider looking for professionally designed templates for pitch decks. PowerPoint, Keynote, and Google Slides offer pitch deck and business plan templates. Try Googling "pitch deck templates free" for others. LEARN MORE ONLINE Learn more about

the topics above at these sites: Slides with visual design elements: www.canva.com, www.beautiful.ai Slide backgrounds that match keywords: https://haikudeck.com Keynote, Mac's equivalent of PowerPoint: www.apple.com/keynote Explainer videos: www.moovly.com Circular (vs. linear) models with zooming: https://prezi.com Working from outlines: https://slidebean.com Page 258 Closing Thoughts on Business Plans Business, and the understanding of business you get from business plan writing, changes. Sometimes it changes quickly as you achieve new things or learn new things (including errors that crept into the plan you just finished). This means that parts of your plan may change from week to week. You handle this by creating handouts with the new information. These can be mailed to people reading your plan, or handed to them at the presentation. If there are detailed parts of your plan that you have left out, such as a market survey or a detailed cost breakdown, it makes a lot of sense to make copies to use as handouts during a presentation or question-and-answer period. Dwight Eisenhower was not only the 34th U.S. president, but he was also the general who planned the most daring effort in all of World War II, the D-Day landing. A master planner, Eisenhower said, "I have always found that plans are useless, but planning is indispensable." The best way to think about the business plan is as a way to get yourself to think through your entire business. Some parts will be so easy that you can instantly know how everything works. Things in the business you imitate from others are classic examples. For other aspects of the business, planning may become the way you get a handle on the complexities and risks you face.36 Some results of the planning process you will write down. Other parts will be kept in your head, ready to be used or amended as circumstances require. Many of the parts of the plan will quickly become outdated or need to be changed or adapted as the business is in operation.37 In fact, the Eisenhower quote makes sense in another way too—business planning is a process you continue throughout your firm's life. Plans, once done, get revisited. Sometimes this is done formally, but more often you informally compare reality with the plan. See the Small Business Insight for more business planning words of wisdom. SMALL BUSINESS INSIGHT Wisdom from the Front Lines Those of us teaching at Saint Louis University have asked for short takes from students after the smoke clears from their business plan presentations. Here are some of the most memorable observations and thoughts: I nailed my numbers, but this entrepreneur failed my plan because I misspelled his name in the cover letter! It is a lot like playing poker for the first time, but you're playing against pros [for this student, bankers and angels] that have been doing this for years. You've got to bring your "A" game or it's all over! Before you start pitching, walk over, look them in the eye, smile, and introduce yourself. It makes them more like regular people. You don't have to have everything in the plan, just as long as you have it with you when you present. [This student's partner added—"And have it where you can find it. Tell your students, USE TABS!"] When they challenged me and I knew I was right, I stood my ground,

but I was polite about it. I think that got me their respect. After a while, the judges could figure out which member of our team wasn't "into" the plan and they just kept hounding that person. Passion pays! If you don't come across as totally believing in your plan, nobody will. Pitch it like your life depends upon it. My grade did! How can an inexperienced kid stand up to those old guys? I figured I've got energy. I've got fresh knowledge. I've got a world of supporters I can get to on the web, and nobody knows my business or cares about my business more than me. If they don't like it, I've got years to go find someone who does. The best plan is one where you've already got sales. If you've got sales, you've proven everything. If you've got sales, you've got cash and you've got real financials, not financial projections. I got sales, so I had it made. Like my mom always says, where there is a will, there is a way. Page 259 However you approach it, the idea of business planning is a powerful one, helping you imagine and then realize the business the way you want it to be. The techniques that contribute to creating a business plan—forming vision statements, elevator pitches, financials, and pitch decks—can be used as stand-alone activities that help you meet the many demands you face as an aspiring entrepreneur. Whether you become an avid business planner or not, the process of business planning goes a long way to helping firms survive and prosper.

GOOD For U
All-natural mix of seeds, fruits, vegetables, and superfoods
Smooth and silky puree
Supplement your everyday foods
12 oz jar
Cacao Sweet Potato Super Seeds
Acai Berry Super Seeds
Matcha Kale Super Seeds
4

Our Product

Good For You

All-natural mix of seeds, fruits, vegetables, and other superfoods
Smooth and silky puree
Designed to supplement your everyday foods
12 oz jar

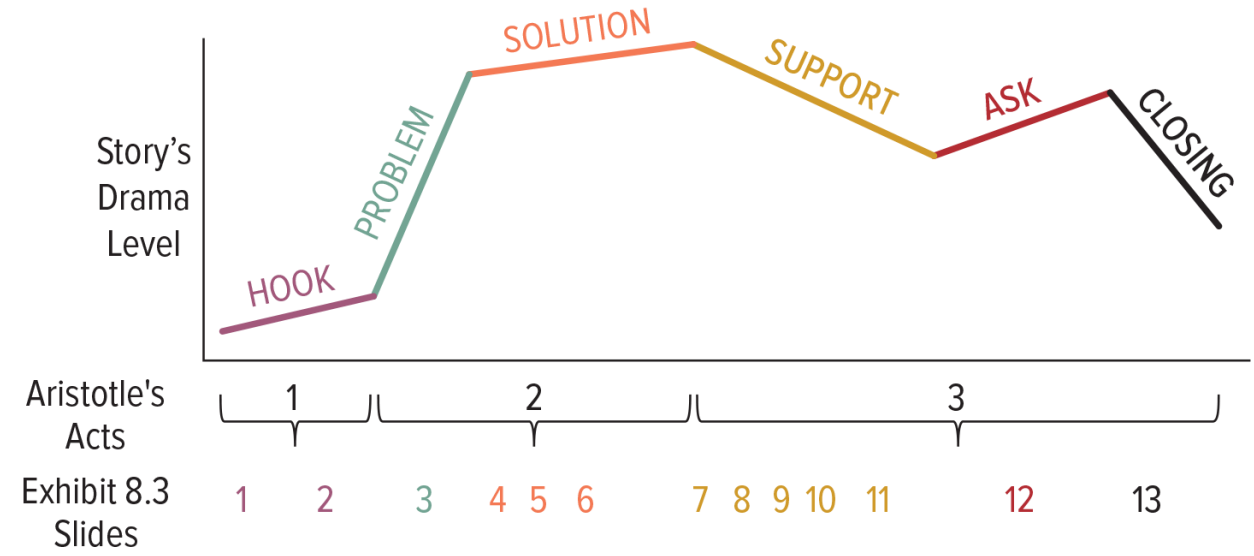
Acai Blueberry

Matcha Kale

Cacao Sweet Potato

ELEVATOR PITCH **Hook** **Solution** **Support** **Ask**

STORYTELLING ARC



CHAPTER SUMMARY 8-1 Understand why and when to develop a business plan. Plans are done for external legitimacy and/or internal understanding. Plans are sometimes essential, and are often linked to improved firm survival. Different audiences seek different goals when reading business plans. 8-2 Know how to tell the business plan story. The business plan is a story you write about your firm. The story gets told in different ways and lengths, from vision statements, to elevator pitches, to executive summaries, to full business plans. 8-3 Learn the major sections of the business plan. The business plan gives the complete story of the firm and its major elements: company, product/service, industry, market and target customer, competitive advantage, marketing strategy, organization, and financials. It is a maximum of 18 pages long, with a cover page, 10 pages of text, and up to 7 pages of supporting material. Business plans build from the IDEO screens, canvases, and feasibility analyses you have already done. 8-4 Focus business plan sections to meet specific needs. A business plan is often modified for special circumstances the firm faces, such as pioneering technology, new markets, established operations, or significant government involvement. Parts of a business plan are often combined to create shorter plans for particular audiences such as investors, partners, or others. 8-5 Identify the major risks to business plan success. All business plans face risks; part of the role of the business plan

is to explain how the firm will handle these risks. The risks come from numbers or assertions that are not adequately explained or supported. 8-6 Master pitching your business plan to others. Most business plans are presented to others using a pitch deck. Listeners check presentations for the presenter's passion, expertise, professionalism, and potential as a colleague.

KEY TERMS business plan external legitimacy pitch deck internal understanding vision statement tagline mission statement elevator pitch traction micro-commitment executive summary cover letter Page 260 signature block proprietary technology preselling research and development (R&D) data room due diligence pioneering business test marketing new entrant business screening plan informational plan proof-of-concept website key employee/partner plan invention plan operational plan private placement memorandum (PPM) offering circular (OC) risks working capital pitch storytelling arcs

DISCUSSION QUESTIONS What are the reasons to write a business plan? Imagine you were presenting your plan to a consultant who specializes in your industry. Your goal is to get her help. Using the ideas in Table 8.1, what kinds of issues do you think would be of interest to her as she reads your plan? You are going to attend an after-work gathering sponsored by your local chamber of commerce. Which of the types of short business plan presentations (vision statement, elevator pitch, executive summary, pitch deck) will you prepare for use, and when will you use them? What is the most important part of a business plan in general? Considering the way you plan to use your business plan, what will be the most important part of it? What are the differences in a business plan for a start-up pizza business and for an existing pizza business? Students know people, including some who might invest in your business. What kind of business plan (e.g., informational, screening, key employee, full) would you give to other students? For a business plan being put together by a student in his late teens or early 20s, what are the most likely risks? Passion is clearly important in the business plan presentation. How can you display your passion for the business during the presentation? What can you do to make the business plan easy to read and understand?

EXPERIENTIAL EXERCISES Evaluating a Business Plan: The goal of this exercise is to help you get used to scoring business plans the way bankers and investors do in the real world. Most financial professionals have checklists and scoring sheets that convert their accumulated wisdom into the factors that make a difference. Knowing how this scoring

works can help entrepreneurs bulletproof their plan, identifying problems before outsiders see them. For this exercise, let's build on the IDEO screen, adding from the business plan outline. In evaluating each of these items in the Business Plan Report Card, give it a grade based on this rubric: A: I would sign on the dotted line and give them what they want right now! B: No signature. I would take them out to dinner to "ask a couple of questions." C: No dinner. Coffee, free refills. I have a lot of questions. D: Nothing to eat or drink. I am detecting major flaws. F: You're wasting my time. You're embarrassing yourself. Get out of here. Circle your grade in each category and your overall grade for the plan. Page 261 BUSINESS PLAN REPORT CARD Table Summary: Table divided into three columns shows components of business plan to be evaluated. The column headers are marked from left to right as: item; component; and grade. Item Component Grade Market Desirability: 1. People want this A B C D F 2. Marketing/sales process sound A B C D F 3. Better than competitors A B C D F Technical Feasibility: 4. Will work and cost as predicted A B C D F 5. Operations are defined A B C D F Business Viability: 6. The firm will succeed as described A B C D F 7. Have excellent team and advisers A B C D F 8. Legal and intellectual property covered A B C D F 9. Financials make sense A B C D F OVERALL EVALUATION OF THE BUSINESS PLAN A B C D F Now read through the Red Jett Sweets business plan included in Appendix B of this chapter. After reading the plan, fill in a grade for each of the rows. Be ready to discuss your findings (and defend your grading) in class. Give some thought to what could be done better in the plan to achieve a higher score. Your score will vary from those of others in the class. You will find that some of the difference comes from how closely people read the plan and the Report Card. There will be times when everyone will agree on what was read, but disagree on the meaning or score. That happens in business too. That is why it is important to try out your plan repeatedly. Just because one person or firm or bank said no does not mean that everyone will see it or score it the same way. Searching Business Plan Archives: See if you can find a plan for your business at one of the business plan archive sites, because there is no shortage of business plans available for review on the Internet. For example, the commercial site behind Business Plan Pro and LivePlan (which is sometimes bundled with this textbook) offers over 500 example business plans (www.bplans.com/sample_business_plans.php). This is the site the SBA refers people to when they seek example plans.

MINI-CASE LOFT IN SPACE38 A student at the University of Nebraska–Lincoln (UNL), Michael Cain, built a loft for his dorm room bed. Others asked him to build one for them, and he started to think about making a business out of it. He had put together his marketing plan in his head and had even begun to think about operational details that would help make his business more efficient. He knew he needed to get some sort of official approval,

since his business would be on campus. So he started checking with university officials about setting up his business, but it was here that he started hitting problems, such as: He could not run the business out of his dorm room. He couldn't use his UNL telephone or email account for the business. His firm needed a $1 million liability policy to work on campus. He needed to be able to address these problems and make sure the solutions would leave him with a profitable business. CASE DISCUSSION QUESTIONS If he was going to build a business plan to present to the university administrators, what type of plan should he develop (following the types mentioned in Table 8.5)? What parts of the plan should he make sure are included? What solutions would you suggest for his three problems?

APPENDIX A: Example Cover Letter and Résumé SKILL MODULE 8.2 How to Write a Cover Letter We all know that first impressions are important. For business plans, the first impression is made by the cover letter, so having a good one-page letter is vital. Fortunately, writing a good cover letter is easy. Step 1: Get the recipient's email and address information. Find out the proper name, title, and address of the person to whom you are sending the plan. Check the company's website, the individual's LinkedIn page, or call or email this person's office to get the right information if you are not sure. Step 2: Draft your letter. There is a classic format for cover letters. Salutation: "Dear Mr. Monroe," "Dear Ms. Craft," or "Dear Dr. Jones" is how cover letters typically start. If you have a long-standing personal relationship with the reader, you can start informally, like "Dear Chris." First paragraph: Here you introduce yourself and your business ("I am Edward Blankenship, owner of PROmote Advertising"). You explain how you got the recipient's name ("Brigit Hawkins at Security Bank suggested I contact you," or "I am contacting you in your role as president of the Northside Investment Group"). Second paragraph: Here you explain your company in a little greater detail. Typically this will be a variation of your vision statement in the first sentence ("PROmote specializes in increasing sales of small-lot professional and technical books through market expansion"). The next sentence describes the product or service in a sales-oriented manner ("PROmote's expertise gets books into specialty bookstores, online bookstores, and professional and trade association booklists for new sales"). The third sentence points up your competitive advantage, or what makes your product, service, or firm special ("PROmote is the only company in the industry that targets small-lot professional books on behalf of the authors, helping them increase sales"). Third paragraph: Here you describe the current situation of the company and explain what you are seeking from the recipient ("PROmote is in start-up phase, having completed its pilot

tests and secured its first customers. PROmote is currently seeking a $20,000 line of credit. I would appreciate your consideration of the attached business plan"). The typical requests are for investment, lines of credit, partnering or joint ventures, sales, or feedback on those areas of the plan in which the recipient is expert. Fourth paragraph: In closing, you thank the recipient for his or her consideration, let the reader know you are available to answer any questions, and close with a mention of your future action, such as a promise to contact the recipient within a week. Signature block: Typically you sign off with "Sincerely," and your name the way it appears in the business plan. Step 3: Proofread. A cover letter with misspellings or grammatical errors sends the worst possible first impression. If the cover letter has problems, imagine what the plan must look like! Step 4: Attach, double-check, and send. Make sure you have attached the business plan and anything else you've mentioned in the cover letter. Double-check the cover letter one more time before you send it off. CC or BCC yourself so you can make sure it was sent. Page 263 Example Cover Letter Mr. Michael Hansen Vice President for New Accounts Bank New Narwhal 1234 Main Street Anchorage, AK 99501 Dear Mr. Hansen, I am Abe Zabrowski, the founder of a new painting inspection company, Surety Inspections, LLC. I have been doing my personal banking at BNN for several years, and so you were the first person I thought about when considering establishing a business line of credit. Surety Inspections evaluates the completeness and quality of commercial painting projects for the clients of painting companies. Because commercial painting is difficult to evaluate, we offer an objective evaluation to painting customers to make sure everything is done according to specifications, or industry standards. Our clients are industrial plants, commercial firms, and government organizations that buy major painting projects. We are the only full-time professional painting inspection business in Alaska, with most of our competition consisting of painting firms that work between jobs. As such, we offer a more consistent and higher-quality evaluation, and we are always available for inspections. While we have funded our initial equipment and operations, it is possible that we will need a line of credit to draw against when we must rent or buy equipment specific to particular contracts, or to pay for travel and lodging for contract work away from Anchorage. Since work in our industry is paid for after the report is delivered, we could incur costs early in a project and need credit. We are looking to secure a $10,000 line of credit. We can offer the firm's equipment as collateral, and we would be willing to discuss other forms of collateral or conditions that would make this workable. You will see that my credit rating and bank history are very solid. Thank you for your consideration. I am available to answer any questions you have. Please call me at 907-555-1213. I will call you later this week to schedule an appointment to discuss my business and what BNN can do to help me grow it. Sincerely, Abe Zabrowski, CEO Surety Inspections, LLC SKILL MODULE 8.3 How to Write a Résumé Résumés are among the most popular and most frequently changed documents a

student or businessperson ever writes. There are many forms of résumé, and many ways to prepare one. Every college's career center has booklets and workshops on résumé-building, and most will be glad to review any résumé you put together. Microsoft Word includes résumé templates. Simply put, résumés are summaries of you and your accomplishments. There is a strong business norm that résumés should be limited to one page. Résumés typically start with a block at the top identifying you: name, address, phone, email. By the way, make sure your phone's voice-mail message and your email address sound "businesslike." An email address like xtremedrift@hotties.com is better replaced by jsmith1811 (or even better, your own regular name) at one of the free email sites such as Gmail, Outlook Mail, or Yahoo! Mail. Consider a site that lets you use your own name. After the identification block, it is good for students and those changing jobs to include a "Skills" section. Go beyond school-based skills. The ability to sell, to work in a team, to lead others, to communicate, to organize, to work exceptionally hard, or to solve problems for yourself or others count as much as knowing financial modeling or web design. For any skill you list here, be ready to back it up with specific examples of when you demonstrated this skill. Page 264 For students (or newly graduated students) usually the next section is "Education" because it is the most important section. For people in the workplace already, "Work Experience" is usually here. Both sections are presented in reverse chronological order (i.e., most recent first). Entries give the college, its city, and your graduation month and year (even if it is in the future). On the next line, give your degree and major. If you have a good GPA (grade point average), put it in too. Generally, you do not list high schools, only colleges and up. The "Work Experience" section is similar. For each company you worked for—in reverse chronological order—put your position, the company, city, state, and starting and ending dates. On the next line put two to four bullet points explaining what you achieved at work. We understand most jobs; what helps is for you to tell us how you helped the company and did superior work. The last section covers any honors or awards you've received or earned (like Dean's List, scholarships, honorary society memberships, elected or appointed positions, etc.). Like in "Work Experience," give the organization on the first line, then bullets with the honor or award on the subsequent line. The content of résumés change often, so keep in mind the following example résumé. Make sure the résumé is easy to read (use 11- or 12-point type) and scan (keep colors and fancy formatting to a minimum). And remember, the purpose of a résumé is to sell you! There are also free online résumé builders available to help you build and format your résumé so it looks professional. Be sure you can download the resulting résumé as a DOC or PDF file for your own use. LEARN MORE ONLINE Learn more about the topics above at these sites: Online résumé builder and cover letter builder: www.resume.com, www.resumebuilder.org Résumé builder with student résumé option: https://resumebuild.com Example Résumé39 DANIELLE SHERWOOD 123 University Drive St. Louis, MO 63101 (314) 555-

XXXX dsherwood@ggg.com SKILLS Able to plan and organize self, others, and operations. Exceptional sales ability. Capable leader and team member. Excellent presentation and communications skills. EDUCATION Saint Louis University, St. Louis, MO, May 2019 Bachelor of Science in Entrepreneurship, Minor in Marketing, GPA: 3.6/4.0 WORK EXPERIENCE Owner, CardinalAngelSales, St. Louis, MO, 2017–Present eBay Gold level reseller specializing in St. Louis Cardinals memorabilia and logo wear. Grew sales to over $15,000 in year 1, with a 99.8 percent customer approval rating. Page 265 Student Intern, Saint Louis University, St. Louis, MO, 2015–2019 Partner with program director in writing and editing brochures and advertisements on leadership. Trained 10 new student employees and facilitated orientation on job duties. Generated new ideas to update department's website. Sales Associate, May Company, St. Louis, MO, 2014–2015 Sold merchandise to clients, increasing monthly sales by 25 percent. Resolved customer complaints and problems in a positive manner. Implemented customer service questionnaire which helped improve buyer satisfaction. HONORS/ACTIVITIES Collegiate Entrepreneurs Organization Vice President, Membership (2018–2019) Textfile Shift Manager (2017–2018) Alpha Delta Pi President (2018–2019) Philanthropic Chairperson (2017–2018)

APPENDIX B: Red Jett Sweets Business Plan May 2011 By: Natalie Gamez Meyer This document contains confidential information belonging exclusively to Red Jett Sweets and its owners. Do not quote, copy, or distribute without permission. [Note to students: The plan fits with the model presented in this chapter and came in at 4,081 words and 13 pages. That said, you will notice not every heading given in the textbook chapter is used here. If a section does not fit with your plan, it can be acceptable to leave it out. If you think moving a section will make the plan easier to read, that may work also. You should check with your instructor or an expert, though, to make sure you don't leave out a section important in your industry or to your readers. The cupcakery was opened, and was a finalist in Food Network's Cupcake Wars. You can see their original submission at www.youtube.com/watch?v=CLrUdsWecDo and their competition at www.foodnetwork.com/shows/cupcake-wars/episodes/wicked. Red Jett Sweets closed in late 2013, as a walkaway (see Chapter 6) having no outstanding debts, with Natalie and Christina selling the firm's assets and going onto other businesses. Natalie is now the general manager for the Dallas-Fort Worth restaurant group Terra Mediterranean. She went from an independent to a corporate entrepreneur.] Page 267 TABLE OF CONTENTS EXECUTIVE SUMMARY THE COMPANY Company Description Mission Statement/Value Proposition PRODUCTS Industry THE MARKET Market & Target Customer Mobile Cupcakery Placement Strategies Competition Competitive Advantage MARKETING

STRATEGY Marketing Objectives Sales Plan THE ORGANIZATION Legal Issues Key Personnel Key Operations FINANCIAL SUMMARY APPENDICES Appendix A: Financials Start Up Costs Break Even Sales Assumptions Income Statement Cash Flow Balance Sheet Appendix B: Supports (1) Owners Biographies (2) Mobile Cupcakery (3) Product Photos (4) Rack Card—Cupcake Menu Page 268 EXECUTIVE SUMMARY Red Jett Sweets Red Jett Sweets, Inc. is a Subchapter S corporation opening a mobile cupcakery in August 2011. Red Jett Sweets will build a reputation in Fort Worth as one of the best cupcakeries in the area. Red Jett Sweets will provide its clients with innovative flavors, high quality ingredients, and the highest level of customer service and satisfaction found anywhere. The mobile cupcakery will feature cupcakes that are freshly baked, original and innovative flavors, high quality ingredients, and that are fun, eclectic, seasonal, and traditional. Although Red Jett Sweets is targeting individuals with the disposable income to buy cupcakes, the mobile cupcakery will be welcoming a wide variety of income levels by competitively pricing cupcakes at $2.75. Other cupcakeries in the Fort Worth area sell their cupcakes for $2.50 and $2.95. Cupcakes will be the main focus of Red Jett Sweets, but a limited line of beverages will be sold to complement Red Jett Sweets' cupcakes. Red Jett Sweets' management and staff will provide customer service that is friendly and helpful, but not pressured, with an emphasis on building ongoing relationships. The mobile cupcakery will provide extensive client service offerings such as home delivery, special orders, gift wrapping, private parties, and customization. The mobile cupcakery design will create an inviting atmosphere that customers will enjoy visiting. Management At the heart of Red Jett Sweets are the owners, Christina Meyer and Natalie Gamez Meyer. They will be responsible for all aspects of product selection, client relations, and day-to-day operations. Ms. Meyer has previous experience starting and running a small business, where she has demonstrated talent in most of the activities required to manage a small business. Ms. Gamez has worked at many businesses in the restaurant industry and still maintains many connections in the industry. She is very detail oriented and well organized, and has a passion for baking. Target Market Red Jett Sweets' primary target market includes people, ages 25 to 44, with household incomes of $75,000 or higher. Secondary target markets include people in younger (16-24) and older (45-54) age groups with household incomes between $40,000 and $75,000. Red Jett Sweets' primary trading area will be West Fort Worth. In the 2001 census, the total number of households in our primary target market was approximately 29,000. The total number of households in both the primary and secondary target markets was 60,000. Competitive Positioning Similar businesses exist in other cities, but when Red Jett Sweets opens it will be the first and only mobile cupcakery in Fort Worth. Its customers will enjoy the best variety of products, best customer service, and best mobile food tuck environment and experience, all available in accessible locations without paying more than at other storefronts in the area. Some

existing local cupcakeries, such as Cupcake Cottage and J' Raes, offer similar cupcakes to Red Jett Sweets', but do not sell their products via a mobile cupcakery. A growing trend, over two-thousand mobile and cart food vendors covered U.S. street corners and parking lots in 2010, with $163 million in sales revenue nationwide. Red Jett Sweets will focus on promotional strategies based on personal relationships, word of mouth, and social media marketing. Red Jett Sweets will use a client database to notify clients when new flavors become available. The mobile cupcakery will host events such as a large opening party with local newspapers and magazines invited to cover it, and special events with 10-15% of profits donated to local charities and organizations. Ms. Meyer and Ms. Gamez will leverage their diverse personal networks to build awareness and interest in Red Jett Sweets before and after the mobile cupcakery opens. Projected Sales and Income Red Jett Sweets expects to achieve sales revenues of $48,379 in the first year and up to $167,723 by the third year. It may be possible to achieve higher sales than this conservative estimate, which is equivalent to 160 cupcakes a day from August to December. This is lower than reported sales at similar cupcakeries in other cities. The local market is large enough to support a higher level of growth. Break-even sales for the first year are $80,358 or 29,221 cupcakes. Net income after taxes is projected to be ($17,003) in the first year and over $19,500 by the third year. Note that during these first three years of business, the break-even sales is raised and net income is significantly lowered due to purchases of equipment and amortization of intangible assets related to Red Jett Sweets' start-up. Financing Ms. Meyer's initial equity investment of $50,000 will fund the start-up of Red Jett Sweets. This includes $29,000 for the mobile cupcakery and small renovations; $3,000 for marketing and advertising materials; $2,500 for equipment; $2,500 for research, development of recipes, and direct labor hours associated with the two; $13,000 in working capital. Page 269 THE COMPANY Company Description Red Jett Sweets, Inc., is a start-up company in Fort Worth, Texas, opening a mobile cupcakery in August 2011. The company, which is a subchapter S corporation, and the mobile cupcakery are both referred to as Red Jett Sweets throughout the business plan. Mission Statement/Value Proposition Red Jett Sweets shares moments of joy with its customers by providing mouth-watering, quality cupcakes that delight the senses of young and old alike. Red Jett Sweets will be the premier mobile cupcake business in the area, widely known for its unique vehicle that offers convenient street sales and that delivers creative custom designs for special events. PRODUCTS At Red Jett Sweets we are intent on baking a cupcake that sends mind, body, and soul to a whole new place. Whether you are a traditionalist or an adventurer, you will find a cupcake for every craving. We offer a number of crowd-pleasing flavors on a regular basis as well as a rotating menu of featured cupcakes that simply sparkle with innovation and wit. We will have crowd-pleasing daily flavors such as our signature Red Jett Velvet cupcake, as well as a rotating menu of featured cupcakes that simply sparkle with

innovation with flavors such as Beloved Banana Foster and seasonal flavors like Peter Pumpkin at Halloween. All our cupcakes will be priced at $2.75. We will also serve a variety of beverages that complement the taste of our signature cupcakes. We will have our everyday beverages, as well as seasonal beverages, including: waters, milk and lemonade. For details of all of these, see our menu on the Rack Card in Appendix B(4) and photos of some of our cupcakes in Appendix B(3). We will offer services such as catering for private parties, special orders, delivery and gift packaging. Industry Red Jett Sweets functions predominately as part of the food truck industry (NAICS code 722330), although it is sometimes treated as part of the bakery (pastry) industry (NAICS code 311811). Over two-thousand mobile and cart food vendors covered U.S. street corners and parking lots in 2010. Also, in 2010, mobile food operations were estimated to have earned $163 million in sales revenue nationwide. Sales in Texas in 2007 were $22,004,000, across 94 mobile food service vendors according to the 2007 Economic Census of the USA.40 Nationally, the market for pastry and baked good has expanded over the past 10 years. This growth was in part due to an increase in public awareness because of media coverage, such as The Food Network and TLC food shows. Consequently, this has led to an increase in demand for premium bakery products such as what Red Jett Sweets offers its customers. THE MARKET Market & Target Customer Red Jett Sweets is a Fort Worth based business, with a Total Available Market (TAM) of 195,078 households (averaging 2.62 people each), according to the 2000 Census. The Serviceable Available Market (SAM), or primary trading area, consists of 59,590 households. These are within a five-mile radius west Fort Worth roughly centered at the intersection of Hulen Street and Vickery Avenue. This area includes 10 zip codes 76102, 76104, 76107, 76109, 76110, 76114, 76115, 76116, 76132, 76133.Figure 8.3 maps out the area, showing the target zip codes in red. The Service Obtainable Market (SOM) for our upscale product is households with incomes over $75,000 annually, and there are 28,941 such households in this area. FIGURE 8.3RED JETT SWEETS MARKET AREA. Five-mile radius map of the Red Jett Sweets Market Area (Primary Zip Codes in red) [Google Maps] Within Red Jett Sweets' SAM and SOM the primary target market includes people, ages 25 to 44, with household incomes of $75,000 or higher. The SAM or secondary target markets adds people in younger (16–24) and older (45 and up) age groups and with household incomes between $40,000 and $75,000. We have chosen these groups as our primary target market because of the disposable income the age group of 25–44 has and also because they are still young enough to be following current trends. The secondary market is important because the age group of 16–24 follows trends and social media more than any other age group and the 45 and up age group has the desirable disposable income and will appreciate our charitable donations. Mobile Cupcakery Placement Strategies Red Jett Sweets will choose locations based on the type of people in the area and the amount of traffic in that area. We will focus mainly on areas around Texas Christian University (TCU),

downtown Fort Worth, and southwest Fort Worth, specifically Hulen St. and Bryant Irvin Blvd. which have high levels of street traffic (e.g. around Cousins BBQ). These streets specifically have high traffic levels from 2:30 p.m. to 4:30 p.m. The types of families who attend these schools are mostly in our primary targeted income levels. For all of these locations, the hours of operation are flexible and could change on a day-to-day basis depending on customer habits and events around town. Competition While there are no mobile cupcakeries in the Dallas-Fort Worth area, there are four "brick and mortar" cupcakeries (mostly in the Arlington Heights area), shown inTable 8.6 below. All of these brick-and-mortar stores have the advantage of being in a known location at all times, but also cannot be where the biggest concentrations of customers might be. All of these competitors and Red Jett create product daily from scratch, with high-quality ingredients, but none of the competition will have the variety of cupcakes Red Jett Sweets offers on a daily basis. Red Jett Sweets will also sell at a price advantage to all but J Rae's. Red Jett Sweets will also be on Facebook, which is only used by Cupcake Cottage. TABLE 8.6 Red Jett Competitive MatrixTable Summary: Table divided into six columns compares five types of cupcake businesses based on various factors. Column 1 notes the comparison factors. Columns 2 to 6 are marked as: Red Jett; Cupcake cottage; J Rae's; Ultimate cupcake; Leah's Sweet Treats. Red Jett Cupcake Cottage J Rae's Ultimate Cupcake Leah's Sweet Treats Location Strategy Mobile Fixed Fixed Fixed with delivery Fixed Cupcake Focus Yes Yes No Yes No Facebook/Web Presence F/W F/W W W W Price $2.75 $2.95 $2.50 $3.00 $2.92 Page 270 While there are five special-order cupcake businesses (Sugar Lush, Le Chat Noir, Blue Bonnet, Nothing Bunt Cakes, McKinley's) and three cake shops (Sublime, Crème de la Crème, Couture) in our five-mile radius, both types of competitors have bigger minimum purchases than Red Jett Sweets and more limited cupcake offerings, so they pose less of a competitive issue. Page 271 Competitive Advantage Red Jett has three competitive advantages—our cupcakes, our location and our social media efforts. We will offer the broadest range of cupcakes in the area, the most customization options, and will be the cupcake innovation leader in the Fort Worth market with more variety and more new and seasonal flavors than anyone else. Red Jett Sweets will be the only business able to change location on a fixed schedule (which can be adjusted when advantageous) to be where the largest concentration of customers is at every time of the day. This will build on co-locating where crowds are, such as where other food trucks congregate, major local events and eateries like Cousins BBQ as well as the TCU campus. We have partnerships with other food truck owners and Cousins BBQ to assure we will be where the food trucks gather. In addition, we will build arrangements with local party planners to provide custom cupcakes for events. Our mobility also means we are able to deliver larger orders. We will also have the most active social media effort among competitors. MARKETING STRATEGY Marketing Objectives Build Awareness. Various communication tools will be used to create

awareness of Red Jett Sweets in the target markets and trading areas and to attract the attention and interest of potential clients. Convert Sales. When potential customers visit the mobile cupcakery, Red Jett Sweets' personal selling techniques, delicious cupcakes, and inviting environment will encourage customers to revisit to make purchases. The events that Red Jett Sweets will host will also create a setting in which clients are more likely to buy. Exceed Expectations. Red Jett Sweets will pursue customer service excellence to ensure that each customer leaves fully satisfied. Such customers are more likely to become loyal, repeat customers and to encourage others to visit our mobile cupcakery. Build Loyalty. Red Jett Sweets will maintain its relationships with customers after they leave the mobile cupcakery, encouraging them to not only become repeat customers, but also to build an emotional investment in the mobile cupcakery and their relationship with the owners. Such loyalty will help Red Jett Sweets maintain its customer base in the face of increasing future competition. Red Jett Sweets will do this by keeping a client database and interacting with customers on various social media channels. Sales Plan Word of Mouth: Interest in Red Jett Sweets has already been spreading by word of mouth a year before the truck will open. In the long term, word of mouth will be the single most important means of building awareness and attracting new customers. Red Jett Sweets will further encourage word of mouth once the mobile cupcakery opens by exceeding customers' expectations, building loyalty, hosting events, and providing customers with delicious cupcakes that invite the question, "Where did you get that?" Personal Networks: Ms. Meyer has developed an extensive personal network through her social, professional, and volunteer activities. She will ask friends and associates to help spread the word about Red Jett Sweets around Fort Worth and Tarrant County, including specifically targeted social groups such as local country clubs, parents at Fort Worth Academy, and Junior League. Ms. Gamez will help target the target age group of 16–24 through her connections at Trinity Valley School, All Saints Episcopal School, and Fort Worth Country Day School. She will also help target parents at these schools. During May 2011 Ms. Meyer will order a set of stylish T-shirts with Red Jett Sweets' logo and give them to friends to wear around town. Charitable Donations: We will donate cupcakes to local charities and nonprofit organizations, to be viewed as a socially responsible and community-oriented company. We might also partner with a local business, organization, or school to allow Red Jett Sweets to park on its premises and donate a portion of sales from that day to the organization. By donating only some of our cupcakes, instead of money, we will be exposing ourselves to a new customer base while making a good impression on the community. Guerrilla Marketing: We will look for opportunities that are unconventional, interactive, and catches consumers at unexpected places. This goal is to create a unique, thought provoking, image that creates buzz to pass along via word of mouth. Search Engine Optimization: These services ensure that www.redjettsweets.com

will be more visible to consumers on search platforms and that the website will generate more hits. We will use keywords, such as “cupcakes,” “Fort Worth cupcakes,” “mobile cupcakeries,” “Fort Worth food trucks,” “cupcake truck,” etc. Digital Marketing: In addition to our website, www.redjettsweets.com, we will use the full range of social media platforms (Facebook, Twitter, Foursquare, Yelp, Instagram) to inform customers where we are at any time, what flavors we feature that day, and other cupcake news. We will also consider using social coupon sites like Groupon, and email campaigns to our customers. We also own www.redjettsweets.com as a redirect in case of misspellings. Print Marketing: We will pursue articles about our cupcakes and truck in local magazines and newspapers and consider paid ads when it makes sense. We will have business cards at the truck and at events, along with rack cards and table toppers. The owners and friends may have car magnets promoting Redd Jett Sweets. The truck will have a full wrap with logo and contact information, and all boxes and containers will have custom stickers. Page 272 THE ORGANIZATION Legal Issues Red Jett Sweets, Inc., is a subchapter S corporation (S-Corp) registered in the state of Texas. This form was selected because S-Corp profits and losses are taxed only once. The relevant permits for the business include Fort Worth Business License and Health Permit, Tax ID number, Food Manager’s Permit, Food Handler’s Permit, Mobile Unit Permit, Texas Manufacturing Permit (TDSHS). We also possess and will maintain the currency of the materials needed for the Fort Worth mobile vending certification. We also hold full insurance (liability, interruption, property) for our kitchen, food and mobile operations. Intellectual Property: Red Jett Sweets' name and logo will be trademarked in the state of Texas and Federally. We may consider trademarking some cupcake flavors in the future. The URL and most likely misspelling are already owned. All social media and advertising material will be copyrighted. The recipes and customer lists will be treated as trade secrets. Key Personnel At the heart of Red Jett Sweets are the owners, Christina Meyer and Natalie Gamez Meyer. They will be responsible for all aspects of product selection, client relations, and day-to-day operations. Ms. Meyer has previous experience starting and running a small business. She has a strong passion for the business and swiftly builds personal connections and maintains strong relationships with people. Ms. Gamez has worked at many businesses in the restaurant industry and still maintains many connections in the industry. She is very detail oriented and well organized and has a passion for baking. Other Key People: Red Jett Sweets will be staffed with a baking assistant and eventually one or two sales associates, selected for their genuine enthusiasm for our business. Ms. Meyer and Ms. Gamez have established relationships with several additional outside consultants, including an insurance agent (Eric Jones), attorney (Aaron Moses), and graphic/website designer (Amy Devine). Their accountant, Diane Hanley CPA, will play an active role in financial management and reporting in the first year. Red Jett Sweets is currently looking for members to be on an advisory board. Key

Operations Mobile Cupcakery: Red Jett Sweets recently purchased a mobile cupcakery from Rosie's Cakes in Denver, Colorado. It is a 1997 Chevy 3500 Box Truck with 48,000 miles. The truck has had two previous owners. Rosie's Cakes, the most recent previous owner, owned the truck for less than a year and put fewer than 1,000 miles on the truck. Rosie's Cakes sold their truck because they could not handle the level of business generated by the mobile truck and the additional special orders. The owner of Rosie's Cakes felt it was more beneficial to sell the truck and to focus on special order business. Refer to Appendix B(2) for photos of the truck and also for a layout of what Red Jett Sweets' mobile cupcakery will look like. We will use Square or its equivalent for credit card purchases. Kitchen: Red Jett Sweets will be renting an offsite kitchen in Fort Worth to bake the cupcakes. The kitchen is located at 7455 South Hulen Street #120 Fort Worth, TX 76133. This kitchen is owned by All in Good Taste, a Fort Worth catering company. We will be paying a monthly all-inclusive rent of $1,000 for full use of the kitchen, most equipment, utility payments, cleaning supplies, etc. from 12:00 a.m. to 11:00 a.m. FINANCIAL SUMMARY Red Jett Sweets expects to achieve sales revenues of $48,379 in the first year and up to $167,723 by the third year. It may be possible to achieve higher sales than this conservative estimate, which is equivalent to 160 cupcakes a day from August to December. This is lower than reported sales at similar cupcakeries in other cities. The local market is large enough to support a higher level of growth. Break-even sales for the first year are $80,358 or 29,221 cupcakes. Net income after taxes is projected to be ($17,003) in the first year and over $19,500 by the third year. Note that during these first three years of business, the break-even sales is raised and net income is significantly lowered due to purchases of equipment and amortization of intangible assets related to Red Jett Sweets' start-up. Ms. Meyer's initial equity investment of $50,000 will fund the start-up of Red Jett Sweets. This includes $29,000 for the mobile cupcakery and small renovations; $3,000 for marketing and advertising materials; $2,500 for equipment; $2,500 for research, development of recipes, and direct labor hours associated with the two; $13,000 in working capital. Page 273 APPENDICES Appendix A: Financials Page 274 Income Statements Page 275 Page 276 Cash Flow Statements Page 277 Page 278 Balance Sheets Page 279 Appendix B: Supports (1) Owners Biographies Ms. Christina Jett Meyer: Ms. Meyer has served as a sales associate, store manager, vice-president of operations across fashion and supplement industries. In 2004, Ms. Meyer opened She Boutique. She personally launched the store for women's clothing and accessories with annual sales of $1,200 per sq ft. Ms. Meyer was successful in building a large customer base through effective branding and marketing. She also organized innovative series of themed special events that generated high sales and positive word of mouth. Ms. Meyer has developed diverse personal networks in the Fort Worth community through activities such as her extensive volunteer work with Fort Worth Academy and her acting roles with the Fort Worth

Theater and Circle Theater. She will leverage these networks to help implement relationship based marketing strategies for Red Jett Sweets. Ms. Natalie Gamez Meyer: Ms. Gamez has several years of experience in the restaurant industry. She has worked in many different areas in the industry. She has perfected her customer service, time management, and organizational skills that will be critical to the success of Red Jett Sweets. Ms. Gamez will be graduating from Saint Louis University in May 2011 and will use the accounting, marketing, and financial skill she learned to help Red Jett Sweets thrive. Ms. Gamez also has many ties to the community and will also utilize these relationships to Red Jett Sweets' advantage. Ms. Gamez will be actively involved in the day-to-day operations of Red Jett Sweets and is fully committed to dedicating time and effort to make Red Jett Sweets a successful business. (2) Mobile Cupcakery Natalie Gamez Meyer (3) Product Photos Natalie Gamez Meyer Page 280 (4) Rack Card—Cupcake Menu Natalie Gamez Meyer

RED JETT Sweets

Start-up Costs	
Sources:	**Amount:**
Equity Investment	50,000
(Christina Meyer)	
Total	50,000
Uses:	**Amount:**
Mobile Cupcakery	29,000
Website & Marketing Materials	3,000
Equipment	2,500
Research & Development	2,500
Working Capital	13,000
Total	50,000

Break Even Sales for 2011	
Equity Investment (Not including working capital)	37,000
Rent	8,290
Telephone	1,520
Transportation	2,403
Insurance	2,000
Legal/Permits & Accounting	3,088
Marketing	2,864
Repairs	1,000
Payroll Taxes	2,082
Total Costs for 2011	60,247
Selling Price per Cupcake	2.75
Cost per Cupcake	0.25026782
Contribution Margin per Cupcake	2.0617635
Break Even Sales for 2011 (Cupcakes)	29,221
Break Even in Sales for 2011 ($)	80,3581.15
Working days per month	25
Months per year	12
Working days per year	300
Break Even Sales per Day	97.40

RED JETT Sweets

Key Assumptions for Business Plan	
1	The sales from the mobile cupcakery van will begin in August, 2011.
2	Each month's sales will be a specific number of cupcakes sold.
3	All sales will be made to individual customers from the mobile cupcakery van.
4	Price of a single cupcake in $2.75
5	Variable cost (ingredients & consumables) total $0.68 per sale.
6	All cupcakes have the same cost of goods sold.
7	50% of sales will be cash, the remainder will be credit card purchases.
8	Credit card processing fee is calculated on gross sale, including sales tax.
9	Any ending inventory of cupcakes will be donated to a food bank. The cost will be absorbed in a spoilage allowance of 3% of COGS for the period's sales.
10	All raw materials (flour, sugar, butter, icings, flavorings, and other miscellaneous consumables) are purchased and consumed in full each month.
11	Revolving credit will be used as needed to maintain a non-zero cash balance.
12	Revolving credit is at 10% annual interest.
13	Interest is paid monthly.
14	Principle is repaid when cash balance allows.
15	Depreciation expense recognition begins in August, when the equipment is actually first placed in service.
16	Depreciation method is 7-year straight line.

RED JETT SWEETS, Inc.
YEAR 1 Income Statement (accrual basis)

	January	February	March	April	May	June	July	August	September	October	November	December	Total
REVENUES													
Unit sales	145	218	145	291	291	218	218	2,983	2,983	2,983	2,983	2,712	16,170
Cash sales	$ 427	$ 641	$ 427	$ 856	$ 856	$ 641	$ 641	$4,389	$4,389	$4,389	$4,389	$4,389	26,434
Credit card sales	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$4,389	$4,389	$4,389	$4,389	$4,389	21,945
Gross Sales	427	641	427	856	856	641	641	8,778	8,778	8,778	8,778	8,778	48,379
Less:													
Credit card fees	—	—	—	—	—	—	—	88	88	88	88	88	439
Spoilage & over production	3	5	3	6	6	5	5	61	61	61	61	56	333
Sales tax collected	30	45	30	60	60	45	45	615	615	615	615	615	3,390
Net sales revenue	394	591	394	790	790	591	591	8,014	8,014	8,014	8,014	8,019	44,217
Less cost of goods sold	99	149	99	198	198	149	149	2,029	2,029	2,029	2,029	1,845	11,002
Gross margin	295	442	295	592	592	442	442	5,985	5,985	5,985	5,985	6,174	33,215
Sales, general, & administrative													
Salaries & Wages	480	480	480	480	480	480	480	4,141	4,141	4,141	4,141	4,141	24,065
Payroll taxes/benefits	42	42	42	42	42	42	42	358	358	358	358	358	2,084
Rent	420	280	420	490	560	560	560	1,000	1,000	1,000	1,000	1,000	8,290
Web site, marketing	1,900	100	100	100	100	100	100	100	100	100	100	100	3,000
Telephone	310	110	110	110	110	110	110	110	110	110	110	110	1,520
Transportation						343	343	343	343	343	343	343	2,403
Insurance	167	167	167	167	167	167	167	167	167	167	167	167	2,000
Research & recipe development	313	313	313	313	313	313	313						2,188
Legal & Accounting	2,703	35	35	35	35	35	35	35	35	35	35	35	3,088
Depreciation expense								316	316	316	316	316	1,580
Total SG & A	6,334	1,526	1,666	1,736	1,806	2,150	2,150	6,570	6,570	6,570	6,570	6,570	50,218
Operating income	(6,039)	(1,084)	(1,371)	(1,144)	(1,214)	(1,708)	(1,708)	(585)	(585)	(585)	(585)	(396)	(17,003)
Interest Expense													
Net income before taxes	(6,039)	(1,084)	(1,371)	(1,144)	(1,214)	(1,708)	(1,708)	(585)	(585)	(585)	(585)	(396)	(17,003)

RED JETT Sweets

Income Statement for the Year Ending December 31, 2012

Revenues	
Unit sales	48,000
Cash sales	$ 70,620
Credit card sales	$ 70,620
Gross Sales	141,240
Less:	
Credit card fees	1,412
Spoilage & over production	980
Sales tax collected	9,887
Net sales revenue	128,961
Less cost of goods sold	32,640
Gross margin	96,321
Sales, general, & administrative	
Salaries & Wages	49,680
Payroll taxes/benefits	3,478
Rent	12,000
Web site, marketing	1,900
Telephone	310
Transportation	2,500
Insurance	3,500
Research & recipe development	2,000
Legal & Accounting	2,800
Depreciation expense	3,792
Total SG & A	81,960
Operating income	14,361
Interest Expense	
Net income before taxes	14,361

RED JETT Sweets

Income Statement for the Year Ending December 31, 2013

Revenues	
Unit sales	57,000
Cash sales	$ 83,862
Credit card sales	$ 83,862
Gross Sales	167,723
Less:	
Credit card fees	1,677
Spoilage & over production	1,163
Sales tax collected	11,741
Net sales revenue	153,142
Less cost of goods sold	38,760
Gross margin	114,382
Sales, general, & administrative	
Salaries & Wages	60,000
Payroll taxes/benefits	4,200
Rent	13,200
Web site, marketing	1,900
Telephone	310
Transportation	2,500
Insurance	3,500
Research & recipe development	2,400
Legal & Accounting	3,000
Depreciation expense	3,792
Total SG & A	94,802
Operating income	19,580
Interest Expense	
Net income before taxes	19,580

RED JETT SWEETS, Inc.
CASH FLOW—Year 1

	January	February	March	April	May	June	July	August	September	October	November	December
Cash flow from operations												
Cash received from customers	424	636	424	850	850	636	636	8,717	8,717	8,717	8,717	8,722
Cash paid to vendors	—	—	—	—	—	—	—	88	88	88	88	88
credit card providers												
sales tax paid to Texas	30	45	30	60	60	45	45	615	615	615	615	615
raw materials used in production	99	149	99	198	198	149	149	2,029	2,029	2,029	2,029	1,845
Salaries & Wages	480	480	480	480	480	480	480	4,141	4,141	4,141	4,141	4,141
Payroll taxes/benefits	42	42	42	42	42	42	42	358	358	358	358	358
Rent	420	280	420	490	560	560	560	1,000	1,000	1,000	1,000	1,000
Web site, marketing	1,900	100	100	100	100	100	100	100	100	100	100	100
Telephone	310	110	110	110	110	110	110	110	110	110	110	110
Transportation	—	—	—	—	—	343	343	343	343	343	343	343
Insurance	167	167	167	167	167	167	167	167	167	167	167	167
Research & recipe development	313	313	313	313	313	313	313	—	—	—	—	—
Legal & Accounting	2,703	35	35	35	35	35	35	35	35	35	35	35
Net cash flows from operations	(6,039)	(1,084)	(1,371)	(1,144)	(1,214)	(1,708)	(1,708)	(269)	(269)	(269)	(269)	(80)
Cash flow from investing activities												
Purchase of Equipment	(31,500)											
Cash flow from financing activities												
Investment by owners	50,000											
Cash received from borrowing												
Cash paid on loans	50,000											
Net cash flow from long-term financing activities												
Beginning cash	—	12,461	11,377	10,006	8,861	7,647	5,940	4,232	3,963	3,695	3,426	3,157
Net cash increase (decrease)	12,461	(1,084)	(1,371)	(1,144)	(1,214)	(1,708)	(1,708)	(269)	(269)	(269)	(269)	(80)
Ending cash	12,461	11,377	10,006	8,861	7,647	5,940	4,232	3,963	3,695	3,426	3,157	3,077

RED JETT Sweets

Statement of Cash Flows
for the year ending Dec 31, 2012

Cash flow from operations	
Cash received from customers	140,260
Cash paid to vendors	
credit card providers	1,412
sales tax paid to Texas	9,887
raw materials used in production	32,640
Salaries & Wages	49,680
Payroll taxes/benefits	3,478
Rent	12,000
Web site, marketing	1,900
Telephone	310
Transportation	2,500
Insurance	3,500
Research & recipe development	2,000
Legal & Accounting	2,800
Net cash flows from operations	18,153
Cash flow from investing activities	
Purchase of Equipment	- 0 -
Cash flow from financing activities	
Investment by owners	- 0 -
Cash received from borrowing	
Cash paid on loans	
Net cash flow from financing activities	- 0 -
Beginning cash	3,077
Net cash increase (decrease)	18,153
Ending cash	21,230

RED JETT Sweets

Statement of Cash Flows
for the year ending Dec 31, 2013

Cash flow from operations	
Cash received from customers	166,560
Cash paid to vendors	
credit card providers	1,677
sales tax paid to Texas	11,741
raw materials used in production	38,760
Salaries & Wages	60,000
Payroll taxes/benefits	4,200
Rent	13,200
Web site, marketing	1,900
Telephone	310
Transportation	2,500
Insurance	3,500
Research & recipe development	2,400
Legal & Accounting	3,000
Net cash flows from operations	23,372
Cash flow from investing activities	
Purchase of Equipment	- 0 -
Cash flow from financing activities	
Investment by owners	- 0 -
Cash received from borrowing	
Cash paid on loans	
Net cash flow from financing activities	- 0 -
Beginning cash	21,230
Net cash increase (decrease)	23,372
Ending cash	44,602

PART THREE Marketing in the Small Business • CHAPTER 9: Small Business Marketing: Customers and Products • CHAPTER 10: Small Business Promotion: Capturing the Eyes of Your Market • CHAPTER 11: Small Business Pricing, Distribution, and Location